The Economist

20010630

Don't let the information age

Print Edition — June 30th 2001

As China changes
The Communist Party must change with it, or perish ... More on this week's lead article EE

The world this week

Business this week EE
Politics this week EE

Leaders

As China changes EE

E-management
Older, wiser, webbier EE

Child murderers
Unoriginal sin EE

Ex-Yugoslavia
War in Macedonia? EE

Turkey
Virtue banned, repression triumphant EE

European economies
Euro trouble, dollar bubble EE

Letters

On the Commonwealth Development Corporation, Native Americans, Iran, Ireland's no vote, Barnsley EE

Special Report

Intimations of mortality EE

United States

Defence policy
Cannon to right of him, cannon to left EE

Monetary policy
Another shot from Dr Feelgood EE

Cell phones in cars
"Yada, yada, yad..." EE

Lexington
Swinging in the wind EE

The sporting scene in south-east Manhattan
Brooklyn gets its ball back EE

The Roman Catholic church
These days, too few heed the call EE

New York's schools
A slow learning curve EE

The Americas

Brazil's opposition
A party in search of the voters EE

Peru
Yes, he's back EE

Justice in Bolivia
Trial and error EE

Argentina
And now, "Big President" EE

Education in Canada
Suck it and see EE

Asia

Japan
A world to win for Koizumi EE

China and North Korea
Trouble comes knocking at the door EE

East Timor's election
It's worrying, this democracy EE

Journalism in South Korea
Oh my EE

Australia's asylum-seekers
Prisoners of the outback EE

Sri Lanka
Getting at the president EE

Improve your vision.

Europe

Germany
The clouds of gloom are gathering EE

France
Tickets, please EE

The EU and olives
Glut, fraud and eco-damage EE

Charlemagne
Giulio Tremonti EE

The Balkans
Hope and fear EE

Turkey
Is it wise to abolish Virtue? EE

Spain's government
All a bit embarrassing EE

Britain

Low-cost airlines
Britain takes to the air EE

Riots
Living apart EE

Politics and society
The new underclass EE

Bagehot
Ideas, at last EE

Bursaries at Oxford
Brown-nosing EE

Public services and the private sector
Punch-up ahead? EE

The Internet and health care
Bed2bed EE

Higher education
University challenge EE

Articles flagged with this icon are printed only in the British edition of *The Economist*

International

AIDS in Nigeria
Silent leaders help the virus to spread EE

South Africa
Haunted by a hat EE

Western Sahara
The UN's U-turn EE

Israel and Palestine
Powell in the lions' den EE

Zambia
Brighter days in the copperbelt EE

Previous print editions

Jun 23rd 2001
Jun 16th 2001
Jun 9th 2001
Jun 2nd 2001
May 26th 2001

More print editions and covers »

Subscribe

Subscribe to the pri
Or buy a Web subsc full access online
RSS feeds
Receive this page by

Advertisement

Fed up with gravy trains, salami tactics and upsetting the apple cart?

Business

E-strategy brief: Enron
A matter of principals EE

Steel industry
A tricky business EE

Central European oil companies
All for one, and one for all? EE

Corporate security in Russia
More brains, less brawn EE

Face value
Cleaning up the mess EE

Tesco and Safeway online
Surfing USA EE

Iran's car-making ambitions
Hoping for a revolution EE

Campari
A lot of bottle EE

Software in Japan
The land that time forgot EE

Intellectual property in China
Have patent, will travel EE

Finance & Economics

China's capital markets
Fools in need of institutions EE

Reinsurance in China
Filling a gap EE

Transatlantic trade
Occasional squalls EE

Wall Street
Of Aces and busted flushes EE

Economics focus
A blunt tool EE

The recession index
Don't mention that word EE

A new European exchange
Hunting where the ducks are EE

Japanese banks' bad loans
Mere fiddling EE

Russian debt
Pay up EE

Bank regulation
Basel postponed EE

Science & Technology

AIDS
United against AIDS? EE

Wildlife conservation
A new game plan EE

Fibre optics
The glass ceiling EE

Books & Arts

Computers and movies
HAL's new pals EE

Steven Spielberg's summer hit
AI, phone home EE

Writing about the mind
Brainteasers EE

How we think about memory
Machines in mind EE

British and French bestsellers
What the world is reading EE

AIDS in Africa
Don McCullin EE

Wall Street
You need a friend EE

New American fiction
Bloody fingers EE

American dance
The dark side EE

African memoir
Bus rides EE

Obituary

René Dumont EE

Economic and Financial Indicators

Overview EE
Output, demand and jobs EE
Prices and wages EE
Spain EE
The Economist metals index EE
The Economist commodity price index EE
Stockmarkets EE
Trade, exchange rates and budgets EE
Money and interest rates EE

Emerging-Market Indicators

Overview EE
Financial markets EE
Economy EE
Corruption Index EE

Advertisement

Don't let the information age

Advertisement

PRINT EDITION

Full contents | Subscribe
Enlarge current cover
Past issues/regional covers

NEWS ANALYSIS
POLITICS THIS WEEK
BUSINESS THIS WEEK

OPINION
Leaders
Letters to the editor
Blogs
Columns
Kallery

WORLD
United States
The Americas
Asia
Middle East & Africa
Europe
Britain
International
Country Briefings Go
Cities Guide Go

SPECIAL REPORTS

BUSINESS
Management
Business Education

FINANCE & ECONOMICS
Economics Focus
Economics A-Z

SCIENCE & TECHNOLOGY
Technology Quarterly

BOOKS & ARTS
Style Guide

PEOPLE
Obituary

MARKETS & DATA
Weekly Indicators
Currencies
Big Mac Index
Chart Gallery

DIVERSIONS
Correspondent's Diary

RESEARCH TOOLS

AUDIO

DELIVERY OPTIONS
E-mail Newsletters
Mobile Edition
RSS Feeds
Screensaver

CLASSIFIED ADS

The Economist Group
Economist Intelligence Unit
Economist Conferences
The World In
Intelligent Life
CFO
Roll Call
European Voice
EuroFinance Conferences
Economist Diaries and Business Gifts

EIU onlinestore

Advertisement

The new Economist screen saver is now available

Blog: Certain ideas of Europe
The project and the people
Read more :
Belgium has an identity crisis
Its next PM fluffs the national ann
Mon, 23 Jul 2007 09:15:
Economist.co
Global analysis. D

Classified ads

Jobs
#1 rated internet business looking for professional consultants No previous technical experience required. Channe....

Business / Consumer
#1 rated internet business looking for professional consultants No previous technical experience required.

Tenders
#1 rated internet business looking for professional consultants No previous technical experience required. J....

Jobs
Sales Executive, Gallerywatch
Sales Executive GalleryWatch, a Roll Call Group business, is currently seeking an outg....

Business / Consumer
#1 rated internet business looking for professional consultants No previous technical experience required.

Tenders
Scientific and Technical Advisory Panel (STAP) Programme Officer, P-4
DIVISION OF GLOBAL ENVIRONMENT FA....

Sponsors' feature

About sp

plus full access to Economist.com

All br
wel
Style Guide

Copyright © The Economist Newspaper Limited 2007. All rights reserved. Advertising Info | Legal disclaimer | Accessibility | Privacy policy | Terms & Conditions | Help

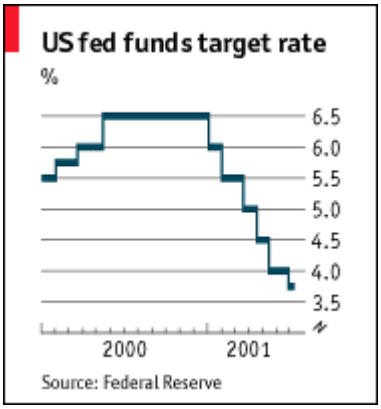
Produced by = ECO PDF TEAM =
Thanks xxmama

Business this week

Jun 28th 2001
From The Economist print edition

Money markets

America's **Federal Reserve** cut interest rates by a quarter point to 3.75% in a further attempt to boost the flagging economy. The National Bureau of Economic Research said that it was possible that the country was already in recession. But America's consumers seemed less gloomy about the future: consumer confidence rose for the second consecutive month.



See article: Another shot from Dr Feelgood

Merrill Lynch, America's largest stockbroker, became the latest victim of Wall Street's waning fortunes. It warned that profits would be down by 50% in the latest quarter, compared with a year earlier, and admitted that it had shed 3,300 staff so far this year, 5% of the total workforce. Merrill Lynch's reliance on equity trading has made it particularly vulnerable to the falling stockmarket.

See article: Of Aces and busted flushes

The Washington, DC, appeals court issued its ruling in the **Microsoft** case. The court rejected the proposal by Judge Thomas Penfield Jackson to break Microsoft in two. It also criticised the judge for his "appearance of partiality". But the court accepted the finding that Microsoft was a monopoly, and has sent the case to a new judge to find a fresh remedy.

Cap Gemini Ernst & Young, a leading European technology consultancy, is suffering from corporate belt-tightening as the world economy slows down. Sales have plummeted at the French company—the financial-services sector has slashed costs the most—and 2,700 jobs are to go, 4% of the total. The group's shares fell by 23%.

Japan's **Financial Services Agency** is toughening up its financial-market regulation. It banned Goldman Sachs, an American investment bank, from the covered-warrant market for two weeks, after Goldman had posted an erroneous price. The FSA also barred France's Société Générale from equity broking for three days.

Gold fingered

Barrick Gold, a Canadian mining company, offered shares worth some $2.3 billion to buy **Homestake Mining**, an American rival. The combined outfit would be the world's second-largest gold producer, but the deal is likely to raise Barrick's production costs in a slow-moving gold market.

EPA

In a last-minute bid to win European Union approval for its **takeover of Honeywell**, GE offered to sell a stake in its aircraft-financing arm. But the EU's deadline looms: it has to approve or block the deal by July 12th.

KPN, a debt-laden Dutch telecoms company, said that it was no longer considering a rights issue; speculation that new equity would be offered had driven its share price down too far. Rumours circulated that KPN would opt instead to look for a merger partner, possibly **Belgacom**, Belgium's state-controlled telecoms company.

Ryanair, a low-cost European airline, maintained its lofty altitude. Pre-tax profits for the year to March

exceeded the expectations of even the most optimistic of analysts, rising 37% to *euro*123m ($112m). Ryanair has cut costs and boosted margins through increasing Internet bookings, even as fuel prices have risen.

See article: Britain takes to the air

The Bush administration had been expected to show a more relaxed attitude to antitrust than its predecessor. But it is to appeal against a judge's decision that **American Airlines** had not used predatory tactics to exclude low-cost airlines from its Dallas-Fort Worth hub. President George Bush also said he would intervene to block a strike by cabin staff at the airline.

All systems go

Compaq, until recently the world's biggest PC maker, reacted to a drop-off in computer hardware sales by announcing a shift to software provision and services, and a round of cost-cutting measures. Compaq hopes to increase its share of revenue from software from a fifth to a third over the next four years.

Sony plans to become one of the world's top-ten chip makers over the next four years. In-house sales are assured; chips are increasingly commonplace in the electronic devices the Japanese company produces. Demand elsewhere seems less certain.

Misys, a British software company, said it would buy **Sunquest**, an American healthcare-software firm, for $404m. Misys will add Sunquest's services to those of Medic Computer Systems, a complementary American medical-software outfit.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Politics this week

Jun 28th 2001
From The Economist print edition

Trouble in the Balkans

Reuters

Boris Trajkovski, **Macedonia**'s president, said his country was on the brink of civil war, after fellow Slav Macedonians rioted in protest against the evacuation of armed ethnic-Albanian rebels from a village near the capital, Skopje, under escort by NATO troops.

See article: Hope and fear

Colin Powell, the American secretary of state, flew to **Egypt**, then to **Israel** after meeting Ariel Sharon, the Israeli prime minister, in Washington, DC. He hoped to help strengthen the ceasefire and bring both sides back to talks. Since the ceasefire was approved on June 13th, eight Palestinians and six Israelis have been killed.

Yugoslavia's constitutional court suspended a decree that would let its former president, **Slobodan Milosevic**, be extradited to face charges at the UN's war-crimes tribunal in The Hague. Yugoslavia hoped the decree would open wallets at an aid meeting in Brussels on June 29th.

See article: War in Macedonia?

World leaders, gathered in New York to discuss **AIDS**, heard that it had killed 22m people. Western countries bowed to Islamic objections and dropped from the closing resolution all references to especially vulnerable groups of people, such as homosexuals, drug-takers and prostitutes.

See article: United against AIDS?

Keep the change?

EPA

Magistrates said they wanted to question France's president, **Jacques Chirac**, as well as his wife and daughter, over cash payments for trips made when he was mayor of Paris.

See article: Tickets, please

Albania's Socialist Party, led by Ilir Meta, won a general election, but there will be run-off contests for many seats.

Turkey's Constitutional Court banned the Islamist opposition party, Virtue, on the ground that it had flouted the country's secular order.

See article: Is it wise to abolish Virtue?

Silvio Berlusconi, **Italy**'s prime minister, said he would resolve conflicts of interest between his public duties and private business without selling any part of his holding company, Fininvest. Separately, Mr Berlusconi was acquitted in one of five cases of financial misdoing still in process.

Russia said its troops had killed Arbi Baraev, a rebel commander in **Chechnya**.

Romania repealed a law banning homosexual acts.

West African disputes

A plan for the disputed territory of **Western Sahara**, proposed by a UN special envoy, James Baker, and backed by the secretary-general, Kofi Annan, would make it an autonomous region of Morocco for the next four years. Rejecting the idea, the Polisario Front independence movement accused the UN of taking Morocco's side.

See article: The UN's U-turn

The killing of a traditional ruler of the Azara people of central **Nigeria** sparked off fighting between them and the neighbouring Tivs. Tens, possibly hundreds, were killed and some 70,000 people, mainly Tivs, were forced to leave their homes.

A spy returns

Reuters

Vladimiro Montesinos, **Peru**'s former spy chief, was arrested in Venezuela and deported to Lima to face charges of arms- and drug-dealing, embezzlement, directing death-squads and money-laundering. Mr Montesinos was the éminence grise behind President Alberto Fujimori, who was forced to resign last year.

See article: Yes, he's back

An earthquake hit the cities of Arequipa and Moquegua in southern **Peru**, killing more than 100 people and making over 46,000 homeless.

Seven soldiers and 14 separatist guerrillas died in gun battles in Indian-administered **Kashmir**, casting a shadow over a summit between Pakistan and India planned to start on July 14th.

The American way

The **United States Supreme Court** upheld strict limits on the amount of money political parties may spend on campaigns promoting congressional candidates. It rejected a claim that the restrictions infringed free speech and suggested that high spending could lead to corruption.

The New York State Assembly approved a law banning the use of handheld **mobile telephones** while driving. Motorists could be fined $100 if caught chatting on their mobiles, although drivers making emergency calls will be exempt from the new legislation.

See article: "Yada, yada, yad..."

The United States decided not to oppose China's bid to hold the **2008 Olympic Games**. Some members of Congress had demanded a more robust attitude given China's woeful record on human rights.

Popular choice

The popularity of Japan's new prime minister, **Junichiro Koizumi**, appeared to be confirmed when his Liberal Democratic Party increased its share of the vote in Tokyo's municipal elections.

Soldiers opened fire on a group protesting against IMF reforms, killing three people in Port Moresby, the capital of **Papua New Guinea**. Objectors to the reforms fear job losses if state-run enterprises are privatised.

Indonesian naval forces recaptured the *Selayang*, a Singaporean oil tanker seized by **pirates** off Borneo.

About a third of the 68 attacks on ships reported around the world in the first three months of this year took place in Indonesian waters.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

As China changes

Jun 28th 2001
From The Economist print edition

The Communist Party must change with it, or perish

AP

THE party of Mao Zedong seems destined, as the old Chinese curse has it, to live in interesting times. Born out of occupation and civil war, like its comrade parties that once ruled from Warsaw to Vladivostok, the Chinese Communist Party has brought down some curses of its own too: the famine of Mao's Great Leap Forward, the violence of the Cultural Revolution, the enduring repression of the *laogai*, China's gulag. Yet over the past 20 years or more, for all its obvious faults, the world's biggest Communist Party has also conspired to increase the GNP of the world's most populous country more than seven-fold, lifting many millions of Chinese out of poverty. Now, on its 80th birthday, after more than 50 years in power, China's party faces an economic and political challenge as heroic as, and far more complex than, any that has gone before (see article). As China opens up more widely to the outside world and its development picks up speed, will the Communists be able to hang on?

By one measure, they are already clinging to power on borrowed time. Just about everywhere else, bar Vietnam, North Korea and Cuba, Marx's irresistible force, the toiling classes, has collided with Lenin's immovable object, the communist party, and won. In China that collision has been avoided because of the party's economic success; it ditched Marx and Mao long ago. But its very success has changed China in ways that make it harder to reassert party control. And from here the economic—and thus the political—going gets a lot harder.

Competitive winds

When China joins the World Trade Organisation, probably later this year, even its better-run companies will start to feel the chill wind of greater foreign competition. Many weaker ones will be blown to the wall. The state will find it has fewer direct controls over the economy just when it is struggling to cope with rising urban unemployment, increasing rural unrest and the task of inventing a rational tax regime and pension system for a modern, working economy, while also constructing a social safety-net for those tossed out of work.

These days, of course, China's leaders debate these issues, rather than scrap to the death over them. The economy, meanwhile, is growing at a healthy-seeming 7-8% a year. At its centre, the party may have lost many of its old powers of coercion and patronage, but the army and the security forces retain their party-dictated punch—witness the thousands of supporters of the Falun Gong sect who have been incarcerated over the past two years. A party card, though no longer the all-purpose pass to power it once was, is still a useful insurance policy. And the party of Mao's workers and peasants is at least trying to show it can befriend China's new entrepreneurs too.

Can it all last? The crackdown on the Falun Gong was prompted not by its goofy ideas, but out of fear of the non-party space it occupies, and should be seen more as a measure of the party's rising alarm than as a yardstick of its success. Economic growth—properly productive, not imaginatively invented—needs to average about 6% a year just to keep up with the numbers of new job-seekers. Meanwhile resentment simmers at factory closures and at the glaring corruption of some party officials. To many Chinese, rural or urban, taxation has long meant the arbitrary confiscation of their hard-earned wages and profits. Plans to rationalise the official tax take have thus had to be put on hold: China's central government receives a paltry 13.6% of GDP in taxes, nowhere near enough for the reforms of education, pensions and welfare it plans.

From Mao to modernity

What is the party to do? Its leaders know they cannot delay difficult reforms indefinitely, but they are fearful of a popular backlash. Part of the answer is to break the reform-blocking power of local and provincial party barons. In order to wrest control of lending from the provincial bank branches, which saw their job as propping up their local failing state enterprises, the banking system was recently reorganised on regional lines that cut across China's provincial boundaries, reduced the protectionist powers of their party cliques and returned control of monetary policy to the centre. Something similar could be tried for the new welfare system or in the devolution of power necessary for future political reform.

More than that, though, China's Communists need a new compact with the people. Some argue that the party should change its name to the Socialist Party, allow other parties to offer a bit more real competition, and simply have done with the old Leninist notion of monopolising power. The trouble is that most top Communists are at heart not so much socialists as conservatives: they want to hold on to the powers they have.

An alternative would be to extend experiments in local democracy, which in recent years have allowed people to elect their own village representatives, to township level and beyond. Some party thinkers recognise the need for new channels to air frustrations—better representation in return for taxation—if the discontent is not to explode into violence, as it has done recently in some areas. But party leaders have again got cold feet, seeking instead to reimpose limits on what village representatives can decide or do.

Indeed, on its own a bit more democracy, though welcome, would not guarantee an end to the corruption that is undermining China's reforms and eating away at party authority. For that China also needs stronger civil institutions, from local citizens' groups and other bodies, to courts that are more independent and can hold even the Communist Party accountable for its follies. Such changes look improbable.

China's Communists face a choice: to loosen their political grip deliberately in the name of reform, or see their authority increasingly challenged, as others have done before them, by the workers, peasants and now entrepreneurs on whom prosperity depends. The party's hold on power is not guaranteed. Indeed, whether by design or by accident—some sudden flare-up of social unrest, an economic upset in the wider world to which China is opening up, a confrontation over Taiwan—its grip seems set to become ever more fragile.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

E-management

Older, wiser, webbier

Jun 28th 2001
From The Economist print edition

The greatest impact of the Internet looks like being found in old firms, not new ones

THE spectacular bursting of the Internet bubble has led some to question the very importance of the net. Eighteen months ago, it was said that this was the greatest change since the Industrial Revolution two centuries ago, and thus that it would have a greater effect on productivity and management than did electricity and the telephone in the first quarter of the 20th century. Executives queued up to attend e-business conferences in order to learn how to bring the magic of the web to their companies, and speakers vied to produce the best soundbites. “E-business or out of business” was one of the favourites. And now? “Delete or, insert and” would seem the right adjustment to that slogan.

Not so fast. Just as the hype in 1999 and early 2000 was hugely exaggerated, so is the gloom of today, with its increasingly common, peremptory dismissal of the Internet. The lesson of the boom and bust is that the Internet and associated new technologies do not magically bring eternal and rapid productivity growth. Nor was the sheer weight of venture capital and equity investment sufficient to change the behaviour of customers overnight, either in retail (“B2C” in the ghastly shorthand) or in wholesale (B2B) markets. People change rather more slowly than computers and telecoms might like them to; and they are less good at dreaming up new business models than venture capitalists might wish them to be.

But the lesson does not stop there. Where e-business has had a genuine and sometimes powerful effect is in the transformation of established companies. Even as the headlines have blared about the bust of first B2C and then B2B firms, these older giants have been quietly taking to new technology and the Internet with a new purpose.

Cut costs, demolish barriers

Over the past few weeks, we have been running a series of e-strategy briefs or case-studies that have examined how several large, older companies have responded. The spread has been broad: from America (GE and, this week, Enron) to Japan (Seven-Eleven), from manufacturing (Valeo) to financial services (Merrill Lynch), from emerging markets (Cemex) to rich ones (Siemens). Lessons from these companies’ use of the net have been equally varied: squeezing suppliers at GE, knowledge-sharing across a big conglomerate at Siemens, going international at Cemex, responding to an outside threat at Merrill Lynch, building your own electronic network at Seven-Eleven, reaching a wider group of customers at Valeo and exploiting the net’s trading power at Enron.

Yet there are also some common threads that can be picked out from the experience of these companies. The most immediately important—and relevant, in these increasingly stringent economic times—is the huge scope for cost-cutting that the Internet offers. GE now does more business on its own private online marketplace than do all the public B2B exchanges put together. Siemens hopes to cut its annual costs in the medium term by 3-5%. The room for more is evident. One estimate suggests that, for routine office purchases, e-procurement costs only a tenth as much per order as does physical procurement. Low-cost airlines such as Ryanair have chopped their costs hugely by using the Internet to cut out travel agents and dispense with ticketing. And many companies have barely scratched the surface. A survey earlier this year by the National Association of Manufacturers found that only one-third of American manufacturers were using the Internet to sell or to procure products or services.

A second point is that, contrary to one of its early myths, the Internet does not seem to offer huge “first-mover” advantages. Most of the companies that we have studied took to the Internet relatively late and with some caution. Yet they do not seem to have suffered; indeed they may have gained from being able

to avoid both the mistakes and the huge spending of the pioneers. The sad fate of many “pure-play” Internet retailers confirms that established companies seem able to catch up relatively easily: and it also suggests that the Internet may be lowering not raising barriers to entry. The contrast between this week’s news that Britain’s biggest supermarket chain, Tesco, is selling its e-buying system to America’s Safeway and the troubles of the most ambitious and best-capitalised online grocery chain, Webvan (see article), is telling.

Third is the more intensified competition that the Internet is everywhere bringing. GE’s Jack Welch famously took to the Internet after seeing his family do the Christmas shopping online in 1999; he then coined the address “destroyyourbusiness.com” as a graphic instruction to his divisions to embrace the Internet or risk being eaten up by competitors. That may have reflected some of the hype of the time, but there can be no doubt that in the coming months the pressure on costs, margins and prices will be intense in many markets. Valeo and Cemex illustrate well the effect of being able to extend a company’s competitive reach globally thanks to the Internet, spreading their costs over a widening market.

The winning consumer

Does all this mean that business will, after all, be the main beneficiary of both the Internet and new technology more broadly? Maybe not. For although there seems to be plenty of scope for cost-cutting and even for productivity improvements, neither may end up feeding through into greater profits. Rather, greater competition, more transparency and lower barriers to entry suggest that the biggest beneficiaries may ultimately be consumers.

In this, as in so many other ways, the Internet may indeed resemble such earlier revolutions as electricity, the car and the telephone. It took companies some time to work out how best to use these new technologies; when they did so, the transformation of work habits and business structures was profound, especially in old companies; but the biggest winners were surely consumers, whose standard of living was hugely increased. That remains the promise that new technology and the Internet hold out today. It is a promise that it is well worth striving to deliver.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Child murderers

Unoriginal sin

Jun 28th 2001
From The Economist print edition

A notorious British murder case exposes mixed-up ideas about children and evil

LAST week Britain's parole board approved the release on licence of two of the country's most hated murderers. Unlike most killers, their notoriety lies not so much in the scale or brutality of their crime, but in their age when they committed it: ten. The frenzy that their offence, and now release, have aroused is symptomatic of a contradictory attitude to children and their crimes, which confuses people and policies.

Reuters

In 1993, Jon Venables and Robert Thompson tortured and killed James Bulger, who was two. Circumstances have conspired to maintain the exceptional profile of the case. The activism of the murdered child's parents has raised questions about the rights of victims. Rulings from the European Court of Human Rights on the judicial treatment of juveniles have sharpened anxieties about the independence of British justice, both from Europe and from British politicians. Before these subsidiary controversies, though, the immortality of the case had been secured by an iconic image, captured by a security camera: a very small boy is led by the hand from a shopping mall by a larger one—to his death.

The murder of children by strangers, though rare, always and understandably provokes passions. Yet the distinguishing feature of this crime was not the youth of the victim, but that of the perpetrators. Britain's tabloids seem to believe that as well as being exotically rare, murder by a child is uniquely wicked. So many people are so revolted by this crime that the perpetrators have had to be protected by a special injunction and given new identities, a privilege usually reserved for supergrasses in danger from criminal gangs. And it isn't only the mob: senior politicians have talked about "unparalleled evil". It is not disrespectful to say that this belief is strange.

At least in the West, children experience a vast array of indulgences and deprivations that adults do not. They are not trusted to drink alcohol, cross busy roads by themselves or vote. They are generally permitted to be noisier, dirtier and lazier than are grown-ups. In England, the justice system is relatively hard on them: the age of criminal responsibility—ten, just old enough to catch Mr Thompson and Mr Venables—is low compared with most European countries. The country is also unusual in Europe in trying some children in adult courts, as sometimes happens in America. But the general rule of special treatment still holds, since the sentences and care received by child-criminals are kinder than is the case with adults.

All of which implies that society regards children as educable but needing protection, including from themselves, because of their inferior powers of reasoning. Rationally, it ought to be much less disturbing for a ten-year-old to commit murder than for an adult. So why the especial and protracted outcry over the Bulger case?

Because there is a contradiction in the way adults think of children. While adults understand that children are not fully responsible for themselves, they also cling to the idea of childhood innocence. Children are expected to be better, as well as worse, than adults. If a child could so violate the adult ideal of infant innocence as to murder another child, the thinking goes, he must be preternaturally and irredeemably evil.

This fuzzy thinking rejects the possibility of rehabilitation, which, especially for the very young, is one of the penal system's main functions. It also ignores and excuses the failings of the various adults whose job it is to try to prevent such egregious behaviour in the first place.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Ex-Yugoslavia

War in Macedonia?

Jun 28th 2001
From The Economist print edition

The good news from Serbia should strengthen the West's resolve to hold Macedonia back

Get article background

Reuters

THESE are confusing times in ex-Yugoslavia. On the one hand, justice seems at last to be catching up with Slobodan Milosevic, Serbia's disgraced despot. The supreme court in Belgrade has suspended a decree which would have permitted his extradition; but most people still expect that he will be despatched, sooner rather than later, to face war-crimes charges in The Hague. The ensuing trial will, with luck, make everyone in the Balkans, including ordinary Serbs, face up to the horrors perpetrated in four dreadful wars. On the other hand, it is plain that these horrors are not at an end. Indeed, the spectre of more ethnic slaughter looms ever larger in Macedonia. Outsiders may well wonder whether it is worth persevering with their efforts to bring peace and prosperity to the benighted Balkans when, despite their best efforts, so many people there seem determined to kill each other. This, however, is not the time to give up.

The West can certainly not be accused of standing by in Macedonia. Yet its efforts to mediate between the country's majority Slavs and their ethnic-Albanian compatriots remain far from success. The ethnic-Albanian rebels look stronger than ever, and the Slavs—to judge by the fury of the mob that rampaged through Skopje this week—are in a mood of hatred nastily reminiscent of earlier Balkan bloodbaths.

How can this be, when the man presented as the principal source of evil in the Balkans—Mr Milosevic—has at last been neutralised? The sad fact is that, although Mr Milosevic can claim to have reintroduced to south-eastern Europe the politics of hatred, backed up by ruthless force, he had no monopoly on its practice. And his departure from the scene, welcome as it is, will in certain ways make the business of peace-making more complicated, though not less necessary.

To put it cynically, the western world's intervention in the Balkans was at its most successful when it mustered local coalitions to fight Mr Milosevic, and then drove home its advantage by making hard-nosed deals with the Serb despot. In 1994, for example, the United States persuaded Bosnia's Croats and Muslims to stop fighting each other and prepare for war against the Serbs—which was duly waged the following year and reduced the Serb-controlled portion of Bosnia to an "acceptable" size. This formed the basis of a peace deal.

In 1999, during NATO's air war against Serbia, the alliance readily engaged in tactical co-operation with the Kosovo Liberation Army. Because Mr Milosevic was so dreadful, western officials felt no compunction about fostering coalitions against him. And they could overlook the misdeeds of his enemies, such as the brutality of the Croats who stormed through Serb-held territory in 1995, or the KLA's links with the drug trade.

Inept, not inevitable

But in Macedonia now—inconveniently enough—there is no side that is self-evidently demonic or heroic. The Slavs can claim to be waging a legitimate war to defend a state in which various ethnic groups have rubbed along reasonably peacefully. But they have discredited their cause by beating and torturing Albanian civilians and, last week, by mounting a furious offensive at a time when delicate peace talks were under way. As for the rebels, they have done what most anti-state guerrillas hope to do: they have acquired a degree of popular support as a result of their foes' heavy-handedness.

Western governments are in a bind—caught between an armed Albanian movement, whose cousins in Kosovo they have been cultivating, and a Macedonian government that wants friendship with the West. All the West can do is use the tools at its disposal to knock heads together. These include well-calibrated economic aid, and NATO help with demilitarisation and the enforcement of ceasefire lines—to which should be added the threat that government and rebels alike will get no assistance at all if they act irresponsibly.

So far, the outsiders' efforts have failed to produce an ideal outcome—a new regime for multi-ethnic coexistence in Macedonia—but they have at least managed to stave off the worst: Macedonia has not, as yet, suffered any horrible massacres. As any politician knows, it is easier to justify intervention after atrocities have been perpetrated than before. But if the worst can be avoided in Macedonia, then the court of history will deliver a kinder verdict on the hard-pressed peace-brokers now at work there than it will on any party, local or external, which bore responsibility for the Balkans during the 1990s.

After ten years of bloodshed, dither and well-intentioned but belated action, the West must do all it can to prevent Macedonia going the way of so many other parts of ex-Yugoslavia. Then, a decade or two hence, when tempers have calmed, a peaceful redrawing of borders can perhaps be attempted.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Turkey

Virtue banned, repression triumphant

Jun 28th 2001
From The Economist print edition

Turkey seems determined to make it harder for Europe to embrace it

Reuters

THE decision by Turkey's highest court to ban the country's third-largest political party on the ground that its Islamic flavour flouts the secular constitution is yet another instance of Turkey's judges and generals failing to realise that tolerance rather than repression should be their nation's route to harmony and prosperity. In the short run, the ruling is likely to weaken the government, already feeble, and perhaps also the economy, even more listless (see article). It certainly reduces Turkey's already dimming hopes of joining the European Union at all soon. All the same, neither Turkey's reformers nor its western friends should give up trying to reverse the trend. Despite the recent setbacks, the cause is not hopeless.

The latest omens, however, are undeniably inauspicious. Since last autumn, Turkey's economic and political course has been one of wobble, crash and wobble. Last November the IMF stepped in to prevent a banking crisis, but in February a row between the prime minister and the president over corruption produced another unforeseen lurch. The value of the Turkish lira fell by nearly half against the dollar, a bevy of banks went under, and only a much bigger intervention by the Fund prevented wholesale meltdown.

On the human-rights front, a string of new horrors has blotted a record that had been improving, albeit patchily. In December a police operation to quell a prison revolt left 32 people dead. New cases of torture committed by policemen have been exposed, with the culprits rarely being brought to book. And now, once again, the impression is gaining strength abroad that Turkish politics remains in thrall to the whims of reactionary generals who still exercise far too much influence in a nominally democratic country, and who still think they should suppress the opinions of those, even in parliament, who promote views they disagree with. One such is, for example, the suggestion that women should be allowed to wear headscarves in state institutions, as some Muslims wish.

Even where Turkey has most to offer the West, namely as a valued member of NATO, things are askew. An EU plan for a rapid-reaction force that would be able on occasion to use NATO assets without other members' involvement has rattled the Turks, since it raises the prospect of their being cut out of decisions that affect their interests. In addition, several EU countries, and not just Turkey's old rival Greece, blame the Turks for failing to nudge their cousins in Cyprus into co-operating with the EU in its efforts to find a settlement to let Greeks and Turks live together on their now divided island: without such a deal, Greece has threatened to block the EU's effort to take in new members from ex-communist Europe. And without an understanding with Turkey over the EU's rapid-reaction force, NATO itself could be undermined.

Still, hope for Turkish reform springs eternal. More and more Turks accept that political and economic liberalism is the way to success. Turkey's courageous president, Ahmet Necdet Sezer, battles gamely against corruption and for human rights. A newish economy minister, Kemal Dervis, is trying to do the right things. And though the country's many disaffected Kurds still seek wider rights, for instance to be educated (at least privately) in their own language, a truce in their south-eastern region where civil strife long raged is more or less holding.

The risks of tolerance, the certainties of suppression

Moreover, handling Islamists—whether in Turkey or elsewhere—is not easy. It is not certain, for one

thing, that all the Islamist politicians whose party has been banned would respect Turkey's pluralist traditions if they came to power. The evidence, however, suggests they are a mild bunch by the standards of the region, and suppressing them will surely not destroy their movement or make their adherents less extreme.

Turkey's constitution, whose core dates back to the ardent secularism of Kemal Ataturk trying in the 1920s to wrench the country out of habits ingrained under the Ottoman sultans, is itself a problem: plainly its limits to freedom of expression go against the liberal ethos of clubs such as the EU. In an ideal world it would be changed. At the least, the country's judges and generals should interpret it elastically. Otherwise, Turkey will sink into a sulk that can only harm Europe—and itself.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

European economies

Euro trouble, dollar bubble

Jun 28th 2001
From The Economist print edition

Investors are being too gloomy about Europe's economy and its currency

"AFTER irrational exuberance, a rude awakening: new-wave and old-style enterprises alike are suffering from stunted growth," proclaims *Time* magazine. A comment on how America's economic boom has turned to bust? Far from it: the article is about how Europe's economies are in big trouble. Recent weeks have seen a spate of such stories. At the start of the year, as the American economy sputtered, European politicians were crowing about their region's strength and prospects, so one cannot blame Americans for jumping so quickly on news of Europe's slowdown. But Europe's economic outlook remains less bad than America's; and it is certainly not so dire as to justify the current weakness of the euro.

That said, European policymakers do seem to have been too complacent. Business confidence has plunged in Germany; some economists fret that the economy is on the brink of recession. In the rest of the euro area, growth has slowed more than expected. This has triggered renewed talk of eurosclerosis. Foreign investors expect returns to remain higher in America than in Europe—so they keep buying dollars.

Yet if the economies of the euro area are in trouble, America's situation looks far worse. Industrial production in the euro zone is still 1.6% higher than a year ago; America's has fallen by 2.8%. Europe may, however, be less immune to a downturn in America than many had thought: one reason why Germany's economy has stumbled is that it is more exposed to America, through trade and foreign direct investment, than are other countries in the euro zone.

Germany cannot blame all its woes on America's downturn, though, since most are clearly home-grown. Gerhard Schröder's government has increased the burden of labour-market regulations. Small firms face tighter restrictions on firing workers; rules on the employment of part-time workers and those on fixed-term contracts have been made stricter; and the role of workers' councils in the management of companies has been expanded. This has cramped the growth of jobs and incomes. It is, even so, wrong to see German troubles as proof that the euro area is returning to its sclerotic ways. Even in Germany recent tax reforms promise to boost future growth, and many other euro countries have made their labour markets more flexible. This is the main reason why employment in France has risen almost twice as fast as in Germany over the past three years. In the euro area as a whole, GDP growth has held up more strongly than in Germany.

Better landing in Europe

The likelihood of slower growth than in America for years to come remains the main reason offered to explain why investors prefer the dollar to the euro. But canny investors should not write off the euro area in this way, for unlike the United States the euro economies are free of the economic imbalances, such as debt and overinvestment, that risk turning America's slowdown into a nasty recession.

America's superior performance in recent years has also been exaggerated. Over the past five years (including forecasts for 2001), America's growth has averaged almost 4%, compared with only 2.7% in the euro area. But taking GDP per head, a better measure of comparative performance in raising living standards, the gap narrows: 3% annual growth in America, against 2.6% in the euro area. Some economists reckon that America's growth may be further overstated, compared with Europe's, thanks to differing statistical methods. If so, growth rates in GDP per head in America and in the euro area may not have been that different after all. Similarly, for all the talk about America's productivity miracle, productivity growth in manufacturing has been almost as fast over the past decade in the euro area as it

has in America.

Looking ahead, productivity growth is likely to slow in America as investment in information technology (IT) slows down. In contrast, there is huge potential for Europe to boost its productivity by copying America's IT successes and by learning from its mistakes. To the extent that America's productivity gains come from investing in IT, there is no reason why other economies cannot reap similar gains—if (a big if) governments continue to make their markets more flexible so as to make possible the necessary shift of resources.

If the gap between America and Europe narrows, this should surely favour the euro. So why has the dollar risen to a 15-year high in trade-weighted terms, despite the sharp deterioration in its economy? The obvious conclusion is that the dollar is overshooting—and is heading for a fall.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Letters

Jun 28th 2001
From The Economist print edition

The Economist, 25 St James's Street, London SW1A 1HG
FAX: 020 7839 2968 E-MAIL: letters@economist.com

Helping the poor

SIR – Helping nations by providing capital remains central to our mandate at the Commonwealth Development Corporation ("Two fingers to the poor", June 16th). The case for bringing international management skills, technology and capital to promising companies in poorer countries is compelling. Reliable energy supplies, efficient communication systems, accessible health care and successful transport are key prerequisites for any country that wants to leave "least developed" status. These are big areas for investment by the CDC.

You focus on Africa. So do we. Over the last year we have committed $20m to the health-care sector in southern Africa, mainly directed towards extending affordable care. We have invested $35m in mining, with $20m of that sum going to Zambia's copper belt. The CDC has invested in independent power supplies, most recently spending $18m in Kenya. We also provide equity to local banks in Africa that understand the local economy and are better positioned to allocate funds.

Whether aid or this type of development will do more in the long run for the world's poor is open to debate. Our commitment to progress through private-equity investment is unequivocal. We do not point fingers at Africa's poor but instead point our capital (and that of other investors who will follow us) to make a difference there.

Simon Cairns
Chairman, CDC
London

SIR – It is ironic that a ministry devoted to poverty alleviation should have set conditions on the CDC that led it to turn its back on the agricultural sector because such investments do not yield high enough returns to attract the private-equity fund investors that the CDC is now required to bring in as majority owners. The loser is agricultural modernisation in poor countries where the CDC has an unrivalled record of promoting smallholder development as well as large-scale operations, often linked together. There is no one to take its place in this area.

Before it is too late, the government should call a halt to the privatisation and rededicate the CDC to its core mission of assisting small, poor countries to achieve better use of their resources, especially modernisation of their rural sectors. If Claire Short, Britain's secretary of state for international development, is unprepared to find any room for the CDC in the enlarged aid budget it only remains for the chancellor of the exchequer to remove the theological ban that prevents the CDC, as a public corporation, from raising debt in the market.

Sir Michael McWilliam
London

The first Americans

SIR – Your article on Tiger Woods (Lexington, June 16th) displays a singularly ignorant and revisionist view of the plight of Native Americans. No fair-minded person would deny that blacks have suffered a tragic and "awful history", but it is reasonably safe and sane to regard the enslavement and subsequent segregation of blacks as less harrowing than the state-sponsored genocide inflicted upon our native peoples.

Estimates of the number of indigenous people living in America before the arrival of Europeans are as

high as 10m. By the end of the great plains wars in the 1890s our numbers were reduced to 250,000. The systematic elimination of a race through conventional and biological warfare, mass murder, hybridisation and dispossession of land continues to cast a very dark shadow over the prospects for Native Americans. African-Americans on the other hand have been "allowed" to journey much further from their subjugated roots and are well represented in all aspects of the mainstream American government, culture and economy. Where is our Colin Powell, Oprah Winfrey or Eddie Murphy? Where is our Tiger Woods?

Jasmine Cloud
Seneca Nation of Indians
New York

SIR – It is not true that "people of colour are well represented in every big American sport—except golf". Ice hockey has an extremely low proportion of African-American participants; over 95% of National Hockey League players are Caucasian. The usual explanation is that hockey is an expensive sport to play and stage. The costs of equipment and arenas are exorbitant compared with basketball and baseball. Owing to the socio-economic disparities between blacks and whites in North America, the number of black NHL players is low, and is likely to remain so.

Albert Kim
Beaconsfield, Canada

Iran opens up

SIR – You are right to highlight the positive changes in Iran under President Muhammad Khatami's first term, not least Iran's reintegration into the world ("Make haste slowly", June 16th). A key aspect of this change is Iran's increasing interaction with the international economic system. Since the start of the year, Iran has awarded contracts or gained loans from international institutions worth at least $6.8 billion. European and Asian companies are the main beneficiaries. Mr Khatami's conservative opponents have done little to resist such investment, even though much is in the strategic oil and gas industries. This reflects a growing realisation in Iran that the country's prosperity depends on building bridges with the international business community. Iran hopes to strengthen such ties with WTO membership and in July it will formally apply to join the organisation.

There are signs that the Bush administration is rethinking America's policy towards Iran. The attitude to the WTO application could provide the first tangible evidence of a softer stance. George Bush is under pressure from key supporters to allow American companies to get a piece of the action.

Michael Barron
Glasgow

No from the Irish

SIR – As an Irish voter I would like to explain why I voted no in the recent Nice treaty referendum ("Ahem, Ahern, a horlicks", June 16th). I have no objections to losing three euro-MPs; it would mean three fewer greedy Irish politicians on the gravy train. Nor have I any objections to greater powers for EU institutions; it would provide less opportunity for corruption in Irish ones. And as for enlargement, I have no objections to the farming cake being spread around as this would principally affect corrupt Irish farmers who have never contributed to the public services they extract from the taxpayer.

I voted no as a protest at unfettered, uncontrollable and unpunishable corruption by Irish politicians at both local and national level. No other reason.

Bernard Neary
Dublin

Greasy-spoon v silver-spoon

SIR – It is not right to compare bad service in a restaurant with that at "any greasy-spoon in Barnsley, circa 1972" ("In cod we trust", June 9th). Has your columnist ever visited Barnsley? If sneering references are needed in future, you might make use of Brighton, Basingstoke or Basildon instead.

S.Parkin
Rotherham, South Yorkshire

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Intimations of mortality

Jun 28th 2001
From The Economist print edition

Reuters

As China's Communist Party celebrates its 80th birthday, the country is changing too fast for its rulers to keep up

THE industrial city of Xingtai, in the parched North China Plain, is the kind of place where you would expect to hear complaints about the way the Communist Party is running the country. Many of its state-owned factories are bankrupt. Unemployment is rising. Corruption and crime are rampant. Last year a deputy mayor and more than 30 other officials were arrested for their alleged roles in a multi-million-dollar bribery case. Early this year the authorities announced the arrest of 18 members of a gang of unemployed youths allegedly responsible for more than 130 incidents of mugging and highway robbery in and around the city over the past couple of years.

On the edge of town, one of Xingtai's biggest state-owned enterprises, the Jingniu Group, believes it has found a cure for this economic and moral decay: Mao Zedong Thought. In a country where Maoism is now rarely mentioned and most public images of the late chairman have long since been removed, Jingniu's approach is unusual, to say the least. Three years ago the company erected a statue of Mao in front of its window-pane factory in the suburbs. Then, late last year, it decided to spread the word more widely by setting up a Mao Zedong Thought website (http://www.mzdthought.com). The company's manager, Wang Changlin, who is also its Communist Party chief, says the website received 400,000 hits in its first five months. "During this process of globalisation, Mao Zedong Thought will become even more important," says Mr Wang.

If only the answer were that simple. As it prepares to celebrate its 80th birthday on July 1st, the Chinese Communist Party is suffering crises of faith, identity and legitimacy. A few members, like Mr Wang, clutch at the past, more out of nostalgia for the supposed clean-living and hard-working spirit of the Maoist era than from any desire for a return to totalitarianism. Not even the party sounds very convinced by communism any more. At the last party congress, in 1997, delegates approved a declaration that achieving communism might take several tens of generations—in non-Chinese-speak, hundreds of years.

Two forthcoming events are concentrating minds. The first is next year's 16th Communist Party Congress, at which sweeping leadership changes will be unveiled. To consolidate their power, the country's new rulers will need fresh ideas for coping with systemic corruption. They will need to tackle fast-growing crime and social unrest fuelled by economic dislocation and the growth of a disenfranchised underclass. In particular, they will need to satisfy the aspirations of a burgeoning class of people in private business—the "exploiters", whom the party once ruthlessly suppressed. In 1991 China had about 107,000 private businesses (defined as those with more than eight workers), employing 1.8m people. Today more than 24m people work in such businesses, and perhaps another 30m run smaller, or individual, concerns. Yet private businessmen are still officially barred from joining the party, even if their money-making is now given more encouragement.

The other event is China's accession to the World Trade Organisation (WTO), which could happen before the end of the year. This will exacerbate unemployment in some parts of the country. It will also bind China to

Workers are leaving state-

international rules that will further diminish the role of government in the economy. As that role weakens, so too does the party's ability to intimidate and control ordinary citizens. Workers are leaving state-owned enterprises, with their once all-powerful party branches, in droves. Increasingly, it is market forces and personal skills, rather than party cells, that decide who gets jobs, who gets promoted and who gets the best housing. More optimistic Chinese intellectuals believe that economic globalisation will, over time, transform China politically as well.

owned enterprises, with their once all-powerful party branches, in droves

What's Chinese for "reform"?

In order to cope with these challenges, the party urgently needs to undertake political reform. But there are huge divisions, both within the party and outside it, over how best to allow the people to take part in politics without causing China to collapse as the Soviet Union did. Whichever way it turns, the party sees trouble ahead.

At the end of last year, China's Academy of Social Sciences conducted a survey of mid-ranking officials attending the Central Party School, the training centre for China's ruling elite. It found that political reform had displaced reform of state enterprises as their foremost concern. By "political reform", many Chinese officials mean little more than streamlining the bureaucracy. But the academy's report said the interest shown in this subject reflected "new contradictions and problems" in Chinese society—the euphemism for corruption, unemployment and unrest. "If there are no channels for letting off steam, the repressed discontent of individuals could well up into large-scale social instability," concluded a report published in May by the party's Organisation Department.

AP

What is the party doing about this? So far, very little. President Jiang Zemin has at least sent a hint that he perceives a problem. Early last year he rolled out a new theory called the "Three Representatives". According to this, the party stands for "advanced productive forces, advanced Chinese culture and the fundamental interests of the majority." In Chinese terms, this is a breakthrough: Mr Jiang appeared to be redefining the party as everyone's best friend, not just the proletariat's. It could be the best friend of the private sector, too.

Despite the objections of a few diehard Maoists, the "three representatives" idea will probably be written into the party charter at next year's congress. But the party still cannot decide whether to let private businessmen join the ranks of its 65m members (about 5% of the total population). In fact, nearly a fifth of the more than 1.5m owners of private companies are party members anyway, reflecting the massive flow of party and other officials into business as well as lax vetting of new members, especially in the countryside. But formal recognition of these ideologically suspect people is another matter.

A rural experiment

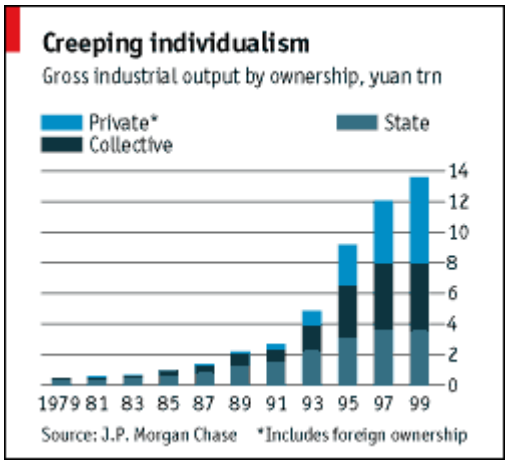
When foreigners ask about political reform, party officials point proudly to changes in the countryside. Since the late 1980s they have gradually introduced a system whereby villagers choose their leaders without party inteference, by secret ballot. Western governments and non-governmental organisations have poured money and expertise into helping China to perfect the new system, hoping that this germ of democracy might one day spread more widely into the body politic. The results have not been encouraging.

The party's main motive in allowing these elections was to strengthen its control over the countryside. It was acutely aware that village party officials often do not have much public support. Many lack the expertise to make important economic decisions and are seen as agents of hated policies, such as China's birth-control programme. If villagers could take control of bread-and-butter issues, they might support the party in other areas.

But it is clear that peasants do not feel more empowered. The Organisation Department's report said confrontations between villagers and officials were becoming bigger and more violent. These, it said, could cause "chain reactions" leading to social disorder across wider areas. There are several causes of

this mounting discontent, ranging from stagnating incomes to the illegal fees exacted from villagers by local officials. But one large cause is the election system itself, which has created rival centres of power in many villages.

Not surprisingly, elected village chiefs often felt they had more authority to represent their communities than village party secretaries, who are chosen by party organs at a higher level. The party, fearful of losing its grip entirely, decided to back its village representatives. Cheng Tongshun, a political scientist at Nankai University in Tianjin, said in a book published last year that most villages were still led by party secretaries who took on most, if not all, of the duties which the elected chiefs are supposed to carry out.



China's experience of rural elections has demonstrated the difficulty of introducing even a modicum of democracy without also allowing the formation of non-party political groups. Thanks to the party's jealously guarded monopoly of power, the only other forces now capable of exerting their interests collectively are generally undesirable: criminal gangs, clans and the self-interested rich. Mr Cheng writes that vote-buying and -selling, stuffing ballot boxes and violence have had a "considerable impact" on rural elections. The Chinese media also speak of frequent, sometimes successful, attempts by wealthy businessmen to buy official positions or seats in local legislatures.

Despite these setbacks, some reformers would like to see the village democracy system extended. But one cautious attempt to do so has faltered. In 1998 Buyun township in Sichuan province caused a stir by conducting, without the central leadership's permission, China's first-ever direct elections to the post of township chief. The party turned a blind eye, but in December this year when fresh elections are due to be held, it is expected that Buyun will end the experiment. This time it will allow voters to choose the candidates, but the winner will be picked by the (party-dominated) township people's congress. Even at this level, the party still considers direct elections too threatening to its power. Not surprisingly, a suggestion made three years ago by Zhu Rongji, the prime minister, that direct elections might one day be considered for China's top leadership posts has gone nowhere at all.

The ghosts of other parties

Only a few people, most of them little known and ineffectual dissidents, call for the overthrow of the Communist Party and the rapid introduction of a western-style democracy. The experience of post-communist societies in Eastern Europe and the former Soviet Union—as well as the violent suppression of China's anti-government protests in 1989—has been a sobering one for many of China's intellectuals. The mainstream view is that change should be gradual and confined within current political structures. The more corrupt and socially turbulent China becomes, the more this view is reinforced.

But this sense of caution does not mean there is anything like a consensus on how China should proceed. Liberals vie with old-guard Maoists. Neo-leftists contend with free-market capitalists. Each camp uses journals or Internet websites to wage these theoretical battles. There may have been little progress with political reform, but at least the party's grip on the publishing industry has been weakened by market forces. Books and magazines air a far wider range of opinion than would have been possible a decade ago, though praising multi-party democracy is still banned, as is the formation of any organised political group. Activists who three years ago formed the China Democracy Party—the country's first nationwide opposition organisation—remain in jail.

One of the more radical advocates of political reform is Cao Siyuan, who runs a consultancy in Beijing offering advice on bankruptcy and mergers. Mr Cao enjoys a certain stature in China, since he helped to draft the country's bankruptcy law in the 1980s. In the May issue of an influential journal published by the State Statistics Bureau, *China's National Conditions and Strength*, Mr Cao argued that there should be competitive elections for party posts. And he added a provocative thought: "A precondition for competitiveness within a party is that a country allows political parties to compete with each other."

Mr Cao did not go as far as suggesting that the ban on opposition parties should be lifted. But he said that China's eight authorised "democratic parties"—the cowed remnants of pro-communist

Reuters

organisations formed before the communist victory in 1949—should be encouraged to become more independent of the Communist Party. The Soviet Communist Party, he pointed out, collapsed because it failed to allow internal competition.

In an essay in March, this time for a restricted-circulation journal published by a Beijing think-tank, Mr Cao made an even bolder suggestion. The party should change its name to the Socialist Party, thereby making itself more alluring to the private sector and allowing it to cast off the baggage of the past, such as the Cultural Revolution. He diplomatically avoided mentioning the party's biggest historical burden, the suppression of the 1989 unrest in Tiananmen Square, which also landed him in jail for a year.

A change of name is inconceivable for the present—and for the foreseeable future, too. Mr Jiang's designated successor, Hu Jintao, who is likely to take over as party chief next year and as president in 2003, was born only seven years before the Communist takeover. During his tenure, the ranks of middling officials will swell with those who have spent most of their lives in post-Mao China. But few expect Mr Hu to take the steps that Mr Cao suggests. Little is known about him except that, because he suffers from altitude sickness, he (ruthlessly) carried out his job as party secretary for Tibet from a suburb of Beijing. Besides, Mr Jiang himself will probably remain the arbiter of party and state affairs well into the decade.

Why not just keep political reform on the back-burner as Mr Jiang has done? After all, the economy is growing at a strong 7-8% a year. Unrest may be increasing, but the police and paramilitary forces have proved themselves capable of suppressing demonstrations. In case they cannot, there is always the army. Yet China's ability to control unrest depends, precariously now, on efficient decision-making and political unity. Luckily for China's leaders, no major dispute has arisen over the handling of protests since Tiananmen (although the demonstrations by members of the Falun Gong sect in 1999 suggested the security forces cannot always be relied on). But there is still a risk of the kind of policymaking paralysis that nearly shattered the party 12 years ago.

Diversifying discontents

Educated Chinese have much more freedom now to shape their own careers, go abroad or pursue their research without party interference. But there are far more people now with grievances—especially the unemployed, farmers and victims of official misconduct. The Organisation Department's report said that in Sichuan province, for example, the increasing mobility of the population was making it more difficult for officials to sense potential trouble. It said protests were becoming "conspicuously better organised" and were increasingly tending to break out in different places at the same time, "making it even more difficult to deal with them."

The report laid most of the blame for this unrest on official corruption and abuse of power. Some of this has been occasionally exposed by the party. In the past three years it has sentenced one Politburo member to 16 years in prison and executed two other top officials. A vice-minister is awaiting trial for allegedly accepting bribes from smugglers. But the party is unwilling to set up truly independent anti-corruption commissions, for fear they would cut swathes through the upper echelons of the party. The leadership's handling of a colossal smuggling case in the port city of Xiamen, involving hundreds of local officials, clearly illustrates the party's dilemma. While it looks determined to stamp out corruption, it will not follow trails that lead to the top of the hierarchy. Mr Zhu suggested last month that the multi-storey vice-den in Xiamen where many of the officials used to entertain lavishly and cavort with prostitutes should be turned into an anti-corruption museum. That would satisfy public curiosity, but do little to deal with the problem.

The party could try to reinforce its legitimacy by waving the banner of nationalism more vigorously. But the current leadership is anxious, not least for economic reasons, to preserve stable relations with America, Taiwan and Japan—the top three abominations in the eyes of ultra-nationalists. A growing body of intellectuals who call themselves "neo-leftists" (as opposed to "liberals" like Mr Cao) would like to see the party reverting to its role as the champion of the working class. But this would involve slowing down privatisation and staying out of the WTO, unless the terms of accession were drastically revised. Again, party leaders believe that this would cause economic damage.

As the 16th Congress approaches, debate about political reform will intensify. The “fourth generation” of leaders who will take over at the congress will encourage the think-tanks close to them to explore new ideas. Liberals, neo-leftists, gradual reformists and Maoists will jockey for attention. But do not expect the increasingly feeble and disoriented 80-year-old party to be rejuvenated. The world around it is changing too fast for it to get in step.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Defence policy

Cannon to right of him, cannon to left

Jun 28th 2001 | WASHINGTON, DC
From The Economist print edition

AP

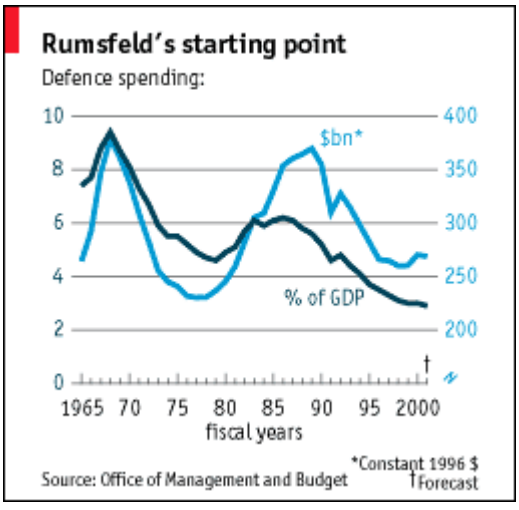
In his bid to change America's defence policy, Donald Rumsfeld is increasingly having to fight on two fronts

Get article background

PREPARING to fight two medium-sized wars at the same time was always an awkward idea. As Donald Rumsfeld, the defence secretary, sets out to abandon the double-conflict strategy as part of his radical change of America's defence policy, he has several reasons to reflect on the drawbacks of multi-fronted warfare. Having managed, for most of his five months in office, to dodge the political shells by keeping everybody guessing about his intentions, he is now under fire from Democrats and fellow Republicans alike.

Right-wingers are dismayed at the mere $18.4 billion in extra spending he has proposed for the next fiscal year, ending in September 2002. Even though it will push total military spending to $343.5 billion, the highest nominal level since the cold war, the add-on was $10 billion less than conservatives (and possibly Mr Rumsfeld himself) had hoped for. Adjusted for inflation, defence spending is low by historic standards (see chart). Worse, the new money is mostly to "keep the show on the road" by dealing with immediate shortfalls in pay, housing and military readiness. Any real defence revolution will have to wait for the 2003 budget, to be presented in February.

The revolution is still entirely possible. Over the next few weeks the conclusions of 20 or so inquiry groups will be fed into the Quadrennial Defence Review. This regular Pentagon exercise in self-examination is supposed to come up with a fresh view of defence by September. By waiting so long to lay out guidelines for the QDR—and thus compressing the entire exercise into a brief, hectic burst of activity—Mr Rumsfeld is keeping the Pentagon's old-guard bureaucrats on their toes.



Even now, what Mr Rumsfeld supports is still less clear than what he opposes. In particular, the two-war scenario—under which America has shaped its armed forces to fight two Gulf-sized conflicts at virtually the same time—is plainly "not working", the defence secretary told Congress on June 21st. By making defence planners worry about fighting two nearly-simultaneous wars like that against Iraq in 1991, this rule-of-thumb has made it harder to prepare for the much broader range of threats which lie ahead.

Dropping the two-war axiom is regarded as essential by those who want to spend more money on

“transformational” weapons—especially those which can “see deep and shoot deep”. Andrew Krepinevich, a radical defence analyst whose thinking has been endorsed, in part, by Mr Rumsfeld, cites several weapon systems which deserve higher priority: long-range bombers, missiles and unmanned aircraft, ships designed for coastal warfare, and submarines which can fire cruise missiles.

But Steven Kosiak, an associate of Mr Krepinevich at the Centre for Strategic and Budgetary Assessments, an independent think-tank, has calculated that Mr Bush’s $1.3 trillion tax cut means that even less money will be available for such new weapons in 2003, and thereafter, than in 2002. So any major innovations in the arsenal will require cuts elsewhere—for instance, by axing one or two of the army’s ten divisions, or abandoning plans to build a new class of tactical fighter-bombers. And even with those cuts there may not be much spare money to play with.

The Republicans are in a bind on this. Most of them share Mr Rumsfeld’s enthusiasm for expensive new projects such as anti-missile defences and the command of space. A few of them may even be willing to grasp the nettle and make some big changes in conventional defence spending. But they have also agreed to a tax cut which leaves scant room for manoeuvre; and any further moves to raise defence spending will tempt the Democrats to call for more spending in other areas.

Already the Democrats, relishing their freshly won control of the Senate, are taking the defence secretary to task for being in too much of a hurry to abandon the Anti-Ballistic Missile (ABM) treaty. This Soviet-American pledge to hold back from missile-interception systems is either a cornerstone of diplomacy or a pointless cold-war relic, depending on where you stand.

During Mr Rumsfeld’s appearances in the Senate, the Democrats fretted that current policy might lead to the worst of all possible worlds. It might make the Russians try to expand their missile arsenal—if they can afford it—before America has found out whether it can, in fact, intercept incoming rockets. Why, they wanted to know, was Mr Rumsfeld talking of his willingness to conduct tests outside the treaty when General Ronald Kadish, the man in charge of America’s anti-missile defences, had said there would be no violation of the ABM treaty under the tests planned for next year? A little embarrassed, the defence secretary professed ignorance of what the general had said, but confirmed that he wanted tests to be freed from the ABM''s shackles soon.

Behind this point-scoring lies an uncomfortable new political fact. In the closing years of the Clinton era, there was something close to a consensus on the need to develop an anti-missile shield, although there were disagreements about its scope. Now Democratic scepticism about the desirability of a shield has hardened.

So far Mr Rumsfeld has managed—just—to reassure everybody. To uneasy Europeans and anxious Russians, he has explained that for the next year at least America will keep searching in good faith for a new balance between offensive and defensive systems. To those who point out that other non-conventional threats—terrorism, cyber-warfare and so on—may be of more pressing concern than some mad dictator’s rockets, the answer is: “Yes, but let’s make some anti-missile defences too, if only to dissuade those rogue states from bothering to build rockets.” And supporters of anti-missile defences have been told that there is no limit to the range of systems (on land, sea and air, for defending both the homeland and friends overseas) that the Pentagon wants to look at.

Ingenious as it is, this many-sided presentation cannot go on pleasing everyone for ever. Pretty soon, the defence secretary will have to make some hard choices. An early guide will be the generals he appoints. If, in the next few weeks, General Ralph Eberhart—now the head of the armed forces’ Space Command—is named as the next head of the Joint Chiefs of Staff, it will be a powerful sign that Mr Rumsfeld is prepared to spend a lot of whatever money he can raise on making sure that America takes command of space.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

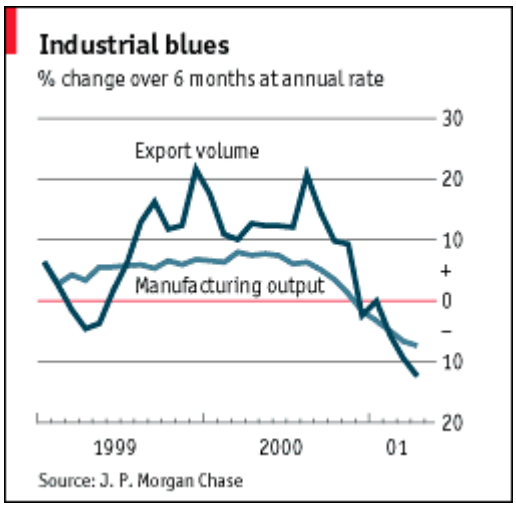
Monetary policy

Another shot from Dr Feelgood

Jun 28th 2001 | WASHINGTON, DC
From The Economist print edition

Will the Fed's latest cut in interest rates get the economy moving again?

THE patient needs yet more medicine, but not another stiff dose. That is the prescription of America's monetary doctors, the interest-rate-setting committee of the Federal Reserve. By lowering the federal funds rate a further 0.25 percentage points to 3.75% on June 27th, Alan Greenspan continued one of the most aggressive campaigns of monetary easing on record. Short-term interest rates have fallen by 2.75 points since the beginning of the year. But many on Wall Street had wanted yet another half point cut, and the Fed explicitly left room for further cuts if necessary.



The central bank's decision came a day after several glimmers of good economic news. Consumer confidence rose in June for the second consecutive month. Although consumers' estimates of their present situation have worsened since May, their expectations for the short-term outlook have improved.

The housing sector, long a beacon of strength amidst the gloom, continued to do well. Sales of new homes rose 0.8% in May, the third increase in four months. New homes sales are now up 8.8% from a year ago. Sales of existing homes also jumped—by 2.9%—in May. During the first five months of 2001, Americans bought more houses than during any other similar period on record. And there was even a ray of hope from the industrial sector. Orders for durable goods—products, such as washing machines, that are likely to last for three years or more—rose by 2.9% in May, following a 5.5% drop in April.

Unfortunately, these relatively rosy figures have to be balanced against gloomier ones. Most manufacturers seem to be in the throes of a full-on recession. Industrial output fell 0.8% in May, double what many analysts were predicting, and the eighth straight month of decline. America's factories were operating at 77.4% of their capacity in May, the lowest level since 1983. According to the Fed's own "beige book", which provides an overview of economic conditions around the country, virtually every industry except oil and gas drilling is showing weakness. And in recent weeks there has been a steady drumbeat of poor corporate profits and rising lay-offs.

With statistics appearing to point in opposite directions, it is unsurprisingly hard to read the economic tea leaves. But on balance, the forward-looking indicators may be turning positive. In addition to this week's good news on consumer confidence, for instance, a widely-followed composite of leading indicators rose 0.5% in May, well above most observers' expectations. The good news on durable-goods orders corroborates evidence from purchasing managers' orders and also a survey of business people by the Philadelphia Fed: business conditions, while not good, are not getting worse.

However, it is far too early to be sure that America's economy has halted its slide. For this is an unusual type of slowdown. In contrast to the post-war norm, the expansion was not "murdered" by the Federal Reserve. The contraction started with an investment bust, as firms that had radically over-invested during the boom years of the late 1990s suddenly cut back. This collapse in capital spending lies behind the recession in American industry.

The second oddity is that exports have provided no relief. Over the past three months exports have fallen at an annual rate of 13.4%, the weakest showing since the early 1990s. Compare that with only a year ago, when soaring exports were adding to booming economic growth.

The dismal export performance is linked to the collapse in domestic capital spending, because many

exports are actually products that go abroad for further processing and are then re-exported to the United States. According to researchers at Morgan Stanley, around 35% of American exports in 1998 were cross-border shipments by American multinationals and by American affiliates of foreign multinationals. Many of these are re-exported back to the United States. The fall in these “exports”, paradoxically, comes from falling demand at home.

The main reason, however, for the export slump is that, this time, America’s customers are in trouble. Europe and Japan are both slowing, and the drop-off in foreign demand is exacerbated by the strength of the dollar. Usually looser monetary policy would imply a weaker dollar, but not this time (see our Economics focus).

Add together a global slowdown and the aftermath of an investment bust, and it is clear that America’s short-term recovery hinges on the consumer. So far American consumer spending has shown remarkable resilience, despite high levels of consumer debt and the faltering stock market. The strong housing market has been a big factor, since homes are the biggest source of wealth for most Americans.

Energy prices are starting to come down, easing inflation fears and also helping consumers’ wallets. Over the next six months, the economy should also get a boost as many Americans start to get their tax-rebate cheques from George Bush. The total fiscal stimulus for the second half of 2001 is worth 1% of GDP on an annualised basis, though its impact will depend on how much of their rebate Americans choose to spend. With luck, these factors will ensure that America starts climbing out of its economic hole. If they do not, expect rather more stiff medicine to come.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Cell phones in cars

“Yada, yada, yad...”

Jun 28th 2001
From The Economist print edition

New York bans them; others will follow

POLITICIANS have not always shown much faith in the American motorist. In 1905, there was an attempt to ban windscreen wipers because it was feared they would hypnotise drivers. In 1930, an effort was made to take radios out of cars; they were disturbing and distracting. And of course there are speed limits so low that visiting Germans have to be trained how to drive below them. Now American motoring’s one area of comparative laisser faire is under fire.

On June 25th, New York’s state Assembly passed a bill prohibiting motorists from using hand-held cell telephones while driving. When Governor George Pataki signs it, New York will become the first state to ban the habit. Local restrictions have been imposed in several other places, including Brooklyn, Ohio (where 500 people have been fined), and Westchester County, New York. New York city’s terrifying cabbies were gagged earlier this year.

Similar laws are being considered in 40 other states. Two Democrats, Senator Jon Corzine and Congressman Gary Ackerman, have introduced a bill that would impose a nationwide ban. Some two dozen countries, including Britain, Italy, Israel and Japan, restrict drivers from using hand-held cell phones; South Korea will start fining them in August.

In fact, there is not much hard evidence linking cell phones to accidents. A study by the American Automobile Association for the University of North Carolina linked 284,000 crashes to distracted drivers; but only 1.5% of these had anything to do with cell phones. The momentum behind the “Drive now, talk later” movement comes from a few specific crashes, notably one involving Niki Taylor, a model whose driver leaned down to answer his phone and ploughed the car into a telephone pole.

In a recent poll, 87% of New York voters supported a ban. Even Verizon, a local telephone giant, endorsed the bill, breaking ranks with other wireless companies. The new law will take effect on November 1st; violators face a $100 fine. Talking with a headset or a speaker-phone will be permitted. So will arguing with passengers on the back seat while changing the radio station, adjusting the climate controls, applying lipstick, having a shave or munching a hamburger.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Lexington

Swinging in the wind

Jun 28th 2001
From The Economist print edition

Is George Bush more like Bill Clinton or Ronald Reagan?

A FEW weeks ago, George Bush was Ronald Reagan—an unbending conservative inflicting a huge tax cut on a sceptical public, pushing an even vaster "son of star wars" at reluctant Europeans, and preparing to disembowel the Social Security system by setting up a commission stuffed with people who want to privatise parts of it. That was Bush the ideologue.

Now comes Bush the panderer. This is the man who surrenders to protectionists on Capitol Hill by asking his trade flack whether the steel industry (strong in Pennsylvania and West Virginia) needs import restrictions; the man who tells the navy to find somewhere other than the Vieques range in Puerto Rico (strong in New York and Florida) to practise its bombing. And this is the Bush who, after months of pointing out that energy price-controls will help California about as much as they helped former communist countries, turns around and meekly acquiesces when the independent but politically sensitive Federal Energy Regulatory Commission decides to impose price caps anyway (delightfully defined by Mr Bush's spokesman as "a market-based mitigation plan").

So it's official. Mr Bush is now Bill Clinton, lacking any policy compass, defining a spade as a labour-saving garden device and prepared to say and do almost anything to get votes. Good heavens, the man even conducts polls and holds weekly sessions where pollsters discuss policy, just like you-know-who.

And, since those who live by the poll die by the poll, along comes—right on cue—a survey in the *New York Times* which indeed shows Mr Bush is doing worse, down four points in the rating of his overall performance. It may be wrong: some other polls show no decrease. But in the world of Washington politicking bad news drives out good—and confirms the need for more politically driven policy-tinkering to push ratings up again.

Lexington's reaction to this is broadly the same as the corrupt police chief's in "Casablanca" when closing down Rick's bar. "I am shocked, *shocked* to find that there is politics going on in this establishment." Mr Bush's criticism of energy price-caps was hurting Republicans in California, so naturally that criticism had to be moderated. On trade, he is calculating that appeasing the steel lobby will help him win a bigger fight for Trade Promotion Authority. As for the Vieques decision, that is already playing well among Latinos, whose approval ratings for the president are at 59%, far above both the nationwide average and Mr Bush's share of Latino votes last November.

Politics, in other words, not just as normal but pretty much as Mr Bush's critics were demanding a month ago—that is to say, politics that appeals to swing voters. And, if Mr Bush gets attacked for it, he deserves little sympathy. He should not have exaggerated his criticism of Mr Clinton for doing the same thing, nor claimed that he would make "decisions based on principle, not based on polls or focus groups." The "permanent campaign" —in which the line between campaigning and governing has become all but invisible—is indeed permanent.

The fact that Mr Bush has a Clintonian side should surprise nobody; the real surprise is how Reaganesque he was to begin with. For better or worse, Mr Bush transformed the political environment on tax cuts even while opinion polls showed them to be unpopular; on missile defence and Kyoto, he calmly ignored his allies' nervous flapping. What is going on?

One explanation is that Mr Bush is developing a schizophrenic presidency, in which there are two Bushes, a Reaganesque and a Clintonian one. On things that Mr Bush campaigned vigorously for, he is

determinedly principled. That explains his toughness on taxes, missile defence and possibly (it remains to be seen) Social Security. But on secondary matters he is prepared to cave in with breathtaking and brutal casualness. Hence his acquiescence in energy price-controls—something that western Republicans were almost certain to vote for anyway (so why get into a fight with them about it?). Hence his willingness to abandon the Vieques range (which was likely to be rejected in a referendum in Puerto Rico this year, so why not salvage something from Puerto Rican voters now?). Mr Bush is prepared to cut his losses rather than defend principles in pointless battles.

Ron, Bill, Ron, Bill, Bill, Bill...

There is a good deal in this view. Mr Bush has never been solely a conservative, nor a centrist, but both at different times. Yet there remains a problem with the idea of a “schizophrenic presidency”. It takes too much account of Mr Bush’s own political personality, and too little of the circumstances he faces.

The problem can be seen most clearly with his education reforms. Along with tax cuts, education was supposed to be one of his signature issues. If the “principled-on-big-things” view were all there is to him, Mr Bush should have steadfastly defended conservative views on education reform, vouchers and all. Instead, he caved in to Democrats from the start. Why? Because he knew he had only a little time to get his top priorities agreed on before the Senate changed hands (though he feared that might happen through illness or death, not defection). Political circumstances, not his own preferences, decided policy.

Now the Senate has changed hands. Over the next few months, most of the issues he will face are likely to be Democratic ones, thanks to that party’s control of the Senate’s agenda. This means the Clintonian Bush is likely to have the upper hand a while longer. Of course, there will be chances for him to be Reaganesque again (cutting back Congress’s appetite for spending ought to be one: this is already out of control). The character of Mr Clinton’s presidency did not fully emerge for two years, until after the 1994 mid-term elections. The same may prove true for Mr Bush. But in the battle between the Reaganesque and Clintonian sides of him, the circumstances of the next year or so surely favour the latter.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

The sporting scene in south-east Manhattan

Brooklyn gets its ball back

Jun 28th 2001 | CONEY ISLAND
From The Economist print edition

But nothing will make up for the Dodgers

THIS week 7,500 jaded New Yorkers spilled out of the subways and swarmed past Nathan's hotdogs, and vendors selling funnel cakes and fried clams, to squeeze themselves into a small ballpark built on the charred ashes of a Coney Island amusement park. The match was the lowest level of professional baseball, the home team filled with young men just out of high school. But 300 journalists showed up; Mayor Rudy Giuliani insisted on throwing the first pitch; and the Brooklyn quintet that first sang "The Lion Sleeps Tonight" in 1961 returned from semi-retirement to sing the national anthem.

AP

Cyclonic force

All this because professional baseball has at last returned to Brooklyn. When the borough's beloved Dodgers departed for Los Angeles in 1957, their going left Brooklyn with perhaps the biggest inferiority complex in sport. (At least English soccer supporters see their team play.) It also created a nation of terrified mayors willing to pay any amount of money for new sports stadiums so that, please God, a similar outrage could never happen again, at least on their watch.

New York city spent $39m to build Keyspan Park (named after a local utility) as the new home for the Brooklyn Cyclones (named after one of the few rides left on Coney Island). The team's players are provided by their parent, the New York Mets, who play in the next borough, Queens, and come closest—though never, to a Brooklynite, close enough—to taking the Dodgers' place.

The Brooklyn Dodgers were a star-crossed team who played courageously but were all too often robbed at the game's end. Many of the watching crowd expected no better from the Cyclones. One fan even brought a sign dumping on "dem bums", an affectionate, sort of, nickname for the Dodgers. In the end, he raised it only once, because the game was surprisingly well played.

In the final inning, the Cyclones were down two runs to the Mahoning Valley Scrappers. With two people out and two strikes on the batter, it appeared that "maybe next year" would remain the Brooklyn motto. But, with one perfect swing, a ball was smacked out of the park and into the red flickering lights of an old Ferris wheel, sending the game into extra innings, and then victory. Fireworks duly exploded over the old Coney Island boardwalk. Maybe this year.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

The Roman Catholic church

These days, too few heed the call

Jun 28th 2001 | BOSTON
From The Economist print edition

The shortage of priests and nuns is hurting schools and hospitals too

IT MIGHT seem that these are good times for Roman Catholicism in America. Numbers are rising: there are 60m American Catholics, and, though their share of the population has slipped from 24% in 1965 to 22% today, 172,000 adults joined the church last year. In politics, Catholics are seen as the most important group of swing voters. And all the talk of faith-based initiatives ought to give the church a bigger say in social policy.

AP

What will you be when you grow up?

The problem is the lack of priests. The Catholic population has doubled since 1950, but the number of priests has risen by only 6%, to 45,000. Things are likely to get worse. According to the Centre for Applied Research in the Apostolate at Georgetown University, almost half of all diocesan priests are aged between 50 and 69. The number of parishes without priests has risen fivefold since 1965, even though a tenth of the priests ordained for American dioceses are imports, recruited overseas. Nuns have become even rarer. In 1965 there were 180,000 of them. Today there are only 80,000, with an average age of 69.

This is not only a challenge for the Catholic church and parish life. Priests and nuns do sterling work in schools, hospitals and charities. Liberals often feud with the Catholic hierarchy over moral issues, notably abortion. But visit the poorest part of any city in America and you discover that much of the social infrastructure is held together by priests and nuns.

That is a good thing for many non-Catholics. About a seventh of the students at Catholic secondary schools are not themselves Catholics (a proportion that is much higher in inner cities). Each year, nearly 600 Catholic hospitals tend more than 70m people of all faiths. Even Catholic institutions that seem to serve the better-off usually have some commitment to the poor. Georgetown, a Jesuit university in Washington, DC, has the only top-notch law school with a night programme (from which Lyndon Johnson benefited), and 45% of its undergraduates are non-Catholics; Bill Clinton was one of them.

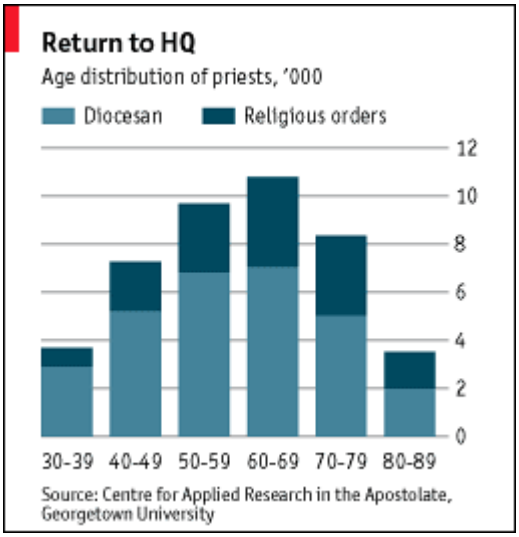
The Jesuit order, which Thomas Jefferson once tried to ban from the country, has arguably done more to help the poor than any other non-governmental organisation. It has founded 28 universities and 46 secondary schools. It also provided early champions of causes such as the right to state-paid lawyers for poor people up before the courts. But the average age of America's 3,549 Jesuits is more than 65.

It may be education that suffers most. In 1950, three-quarters of the teachers in Catholic schools were nuns: now only 6% are. The new lay teachers may help to broaden their charges' minds, but they cost three times as much as nuns. There are now only half as many Catholic secondary schools as 50 years ago.

In many poor areas, Catholic schools often provide the only decent education. But Mary Immaculate Academy, the last Catholic high school in New Britain, one of Connecticut's rougher towns, has just had to close. Although it was getting more students, it could not cover its costs without increasing its fees beyond what most of their parents could afford. School vouchers, which let parents choose where to spend their education dollars, would have helped, of course; but President Bush has abandoned vouchers.

If he had not, archbishoprics would have more money available to

help Catholic hospitals, 46 of which have closed in the past decade. The main problem has been cutbacks in government subsidies for health care for the poor. But the decline in vocations has deprived them of cheap manpower. The same applies to charitable work: priests, in such short supply, have to concentrate on their basic business.



Why are priests getting fewer? Vocations are rising in much of Africa and Asia. In the United States, many people believe that the rule of celibacy is closing people's ears to the call. (The Byzantine-Rite Catholic church and the Orthodox church, which allow their priests to be married before ordination, get plenty of vocations.) Other fingers point at "outmoded" Catholic views on contraception and divorce, and a rash of sexual scandals.

But these problems are not novel. Celibacy has been a challenge for 900 years. Anyone who thinks that sex scandals are new might look up the Borgia popes. Anyway, in some parts of the United States the church's recruiting is going well.

The archdioceses of Omaha, in Nebraska, and Atlanta, in Georgia, each of which serves the fairly modest number of 250,000 Catholics, average around seven vocations a year apiece. At the other end of the scale Los Angeles, the largest archdiocese in America, with over 4m Catholics, ordained two priests in 2000; Boston, with over 2m faithful, ordained six.

The difference may be that Atlanta and Omaha try harder. Cardinal Roger Mahony in Los Angeles and Cardinal Bernard Law in Boston spend less than 1% of their total budgets and less than one week a year of their own time on looking for new priests. In Omaha, Archbishop Elden Curtiss says that a tenth of his budget goes on recruiting priests. In Atlanta, Archbishop John Donoghue, who opened five new Catholic schools this year, spends a lot of time urging the need for vocations.

The way these two archbishops talk would not sound odd coming from the tongue of a company boss engaged in fighting the "war for talent". Archbishop Donoghue inveighs against the presumption, common among priests, that "if we pray, God will provide." Archbishop Curtiss believes that there "are as many vocations today as there have ever been", but that "the number of vocations a diocese will receive is inversely linked to how liberal [in terms of Catholic doctrine] that diocese has become."

Such language scares many on the left in America. But if liberals want to keep hospitals and schools open, maybe they should wish the two archbishops well.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

New York's schools

A slow learning curve

Jun 28th 2001 | NEW YORK
From The Economist print edition

With the mayor and the unions at odds, reform looks a long way off

AP

Why isn't the mayor responsible for us?

THERE are few clearer lessons in how to squander $12 billion than that offered by New York city's education system. Summer vacation began this week with teachers protesting outside their schools and a record 330,000 pupils facing extra lessons and tests during the holidays because of poor performance. For all his efforts, Rudolph Giuliani, the city's otherwise reforming mayor, has made little progress in turning round America's largest (and, once upon a time, its best) education system. According to a recent report by New York state, three out of four schools in the city are failing.

Mr Giuliani is currently battling with the teachers' union over a new contract of employment, and with the Board of Education, which runs the city's 1,189 schools, over its soaring costs. This week he ordered an investigation into why the new school-building programme is expected to exceed its $7 billion five-year budget by 27%. Neither dispute seems likely to be resolved before term-limited Rudy steps down as mayor in January.

The contrast with his success in revitalising the city's police force is striking. The mayor is directly responsible for the police, appointing the commissioner. But, as he often points out, he has no such control over the unloved "Board of Ed", to which he nominates only two of seven members, the others being appointed by the city's five borough presidents. These unelected board members select the schools chancellor, the system's chief bureaucrat—usually after prolonged horse-trading with the mayor, who has some control over the system's purse-strings.

Mr Giuliani's relations with his three chancellors have been far from ideal. They have given, at best, lukewarm support to his aims of introducing more accountability into the system. It remains well nigh impossible to fire a teacher for incompetence. Giving parents vouchers with which to buy places at the school of their choice is something espoused by Mr Giuliani, but opposed, even as a pilot scheme, by the Board of Education.

Harold Levy, the current chancellor, reluctantly agreed to let Edison, a private education firm, bid to run five of the city's worst schools—but forced them to take part in a political beauty contest which made their eventual rejection utterly predictable. Compulsory summer school was belatedly introduced to end "social promotion", whereby pupils automatically rise a grade each year even if they have not met adequate educational levels. But that was largely undermined last year, when the chancellor allowed pupils to move up whether they had attended summer school or not.

Beyond Giuliani

At least four of the main candidates for mayor want to take control of education directly, ideally by abolishing the Board of Education. According to Joseph Viteritti, a professor of education at New York University, most city voters would like to see this happen. "Nobody believes any more that separating education from City Hall makes it less political," he says. "So why not make the city's top politician directly accountable for it?"

This may be easier said than done, alas. It would require legislation by the Democrat-controlled New York state Assembly, which is heavily influenced by the teachers' union and has so far shown no interest in giving greater power to the mayor.

The main hope is that the union can be persuaded to lobby for change at the state level as a quid pro quo for a new employment contract. The old contract expired on November 1st last year, and teachers are increasingly anxious to get a rise. After years of opposition, Randi Weingarten, the head of the teachers' union, recently said she would not mind the mayor being given the right to appoint a majority of Board of Education members. But such a change could not be part of any new contract, so it is not clear that this shift in position is worth anything.

The case for paying city teachers more is strong; they earn up to 20% less than their colleagues in the suburbs. As a result, the quality of recruits is falling; 60% of this year's were "uncertified". The challenge for the new mayor—assuming, as the union believes, that no deal can be reached with Mr Giuliani—will be to get something worthwhile from the teachers' unions in return for the money. Sol Stern of the Manhattan Institute reckons the best hope lies in ending promotion by seniority rather than merit, and making it easier to fire bad teachers. But unless the next mayor somehow seizes control of the system, it is hard to believe that even Mr Stern's ideas would do much to improve the lot of New York's wretched schoolchildren.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Brazil's opposition

A party in search of the voters

Jun 28th 2001 | SAO PAULO
From The Economist print edition

AP

As the 2002 elections approach, Lula da Silva's Workers' Party is trying to sound more moderate. That may not make it more electable

Get article background

HAVING lost the past three presidential elections, Luiz Inacio Lula da Silva, the leader of Brazil's left-wing Workers' Party (PT), is hoping to be fourth time lucky. He has plenty of reasons to be hopeful: looming electricity shortages; rows among members of President Fernando Henrique Cardoso's centre-right coalition, and accusations of corruption; a weak currency and rising interest rates, and thus the prospect of lower growth and higher inflation.

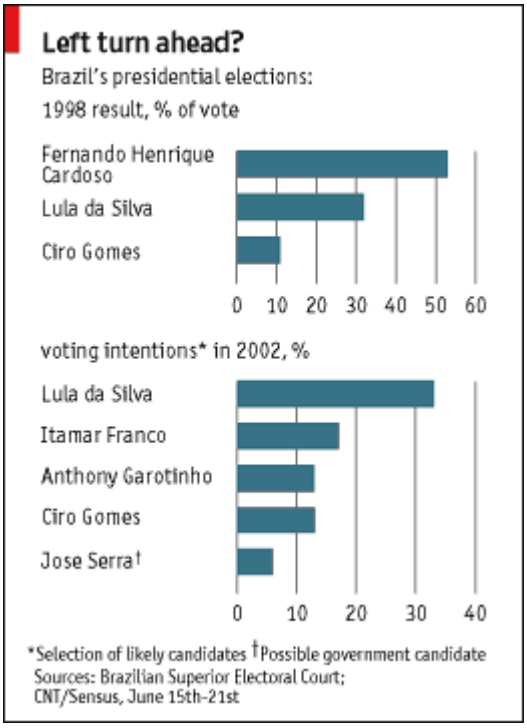
Whereas Mr Cardoso romped home in the 1998 election, current polls show that even the strongest of his potential chosen successors—Jose Serra, the health minister—is trailing far behind Mr da Silva. However, things are not as good for the PT as they seem. Mr da Silva's lead is likely to shrink once the campaign proper begins, since the coalition parties will have the lion's share of free election broadcasts, which will be allotted in proportion to the votes cast in 1998. Furthermore, Mr Cardoso won that year despite the early signs of a crisis that led Brazil to seek a bailout from the IMF and to devalue the *real*. Voters felt that the policies of the PT and its leader were either unclear or wrong, and that it could not be trusted to run the economy, least of all in bad times.

In an attempt to change this, the PT this month published a draft economic-policy document which takes it several steps further from the hard-left policies that it has edged away from with every successive poll defeat. The most important change it proposes is that the PT should accept inflation targets, though it hedges this with arguments that they must have equal standing with social targets. There is also no mention, as there was in 1998, of renationalising former state industries or imposing import restrictions.

The document is not the only sign of growing realism in the PT, says David Fleischer, a professor of politics at Brasilia University. The party has just reached an accord with the government to pass a bill limiting the president's use of decrees. It is less radical than the PT had hitherto called for: in office, Mr da Silva too would need discretionary powers, just as Mr Cardoso does. And the PT also seems to be co- operating with the government in negotiating a bunch of tax reforms, aiming to pass them before the election. This is a big change from just saying no, as it used to, says Mr Fleischer.

So has Brazil's main left-wing party made a great leap to the centre and thus towards electability, as Britain's Labour Party

did? Not quite. There is still plenty in the policy document that is sure to worry sceptical voters. Although it does not call for a default on Brazil's public debt, as it once did, it talks of capping the share of tax receipts that goes on debt servicing, which does not sound very different from defaulting. The document is packed with proposals for more public spending. And it indulges in the fantasy that Brazil could somehow cut the interest it pays on its public debt while both spending and borrowing more. Not to mention calling for restrictions on "speculative capital"—ie, some sort of exchange controls—and ruling out privatising the oil industry and the federally owned banks.



Nevertheless, the document is a step in the right direction, reckons Eduardo Giannetti, a professor of economics at the university of Sao Paulo. Having opened a public debate on its policies, the PT will now be under pressure to re-examine its more impractical proposals and clarify those that lack detail. Better to do that now, rather than when in power.

Brazil has many political parties, which means that neither the PT nor any other party is likely to get a majority in Congress on its own. This, plus the rules on election broadcasts, means that the PT's chances would be boosted were it to join forces with other centre-left groups. It made unprecedented efforts to do this in last year's municipal elections, though not all potential partners are keen.

Assuming the PT might be ready to govern Brazil by election day in October 2002, is Brazil ready to be governed by even a paler-pink version of the party? Mr Cardoso, perhaps surprisingly, says yes, because many of his economic reforms are irreversible. Certainly, it would be hard to buy back the public utilities that have been sold. And Brazilians would be unlikely to tolerate a party whose policies risked a return to the rampant inflation of the past. Nevertheless, to achieve sustainable development Brazil needs to cut its budget deficit further, not raise it; contain public spending while spending more efficiently; and deregulate and privatise more.

The PT's draft policy document suggests that it still fails to recognise all this. Although its most radical policies have been ditched, what remains is enough to make investors fear a President da Silva, and voters may well follow suit.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Peru

Yes, he's back

Jun 28th 2001 | LIMA
From The Economist print edition

The eminence grise in handcuffs

EIGHT months after slipping away on a luxury yacht, Vladimiro Montesinos, former spy chief and CEO of the corruption ring that once ruled Peru, returned on June 25th in handcuffs. He had been seized from a safe-house in Venezuela's capital, Caracas, and immediately extradited. Venezuela's president, Hugo Chavez, has denied that he was sheltering him.

AP

Montesinos has more to reveal

Peruvians have greeted the reappearance of Mr Montesinos, who had a $5m price on his head, with mixed feelings. His return coincided with a huge earthquake that killed more than 100 people in the south of the country, made more than 47,000 homeless and caused appalling damage—notably in Arequipa, where Mr Montesinos was born. Peruvians do not much relish a political earthquake as well, but they know that the return of the old spy chief means months of raking over extremely murky details of the country's recent past.

Mr Montesinos, an obsessively secretive man, is believed to be privy to the dirty secrets of most of the country's elite. Some of what he knows is already public in the form of about 2,000 videotapes that were seized when he fell. These graphically demonstrated the extent to which he corrupted almost all Peru's institutions. Dozens of people, including military officers, judges, politicians and owners of television channels, have been jailed on this evidence. But he knows far more.

Will he talk? In his first meetings with anti-corruption judges, Mr Montesinos gave signs that he was willing to co-operate, even though he can hardly hope—with 52 charges already laid against him on counts ranging from human-rights offences to drug-trafficking and money-laundering—for anything but a lifetime in jail. He also claimed to have recorded an astonishing 30,000 secret videos that he said he would turn over. If it exists, this clandestine video library will be a political tinderbox. Small wonder that Mr Montesinos appeared in a bullet-proof jacket and refused to eat his food unless a prison guard tested it first.

The man most vulnerable to his evidence is Peru's ex-president, Alberto Fujimori, now in self-imposed exile in Tokyo. So far, the case against the former president has proved hard to build. However, Mr Montesinos's loyalty to him appears to have run out. Carlos Reyna, a sociologist at Desco, a think-tank, believes that Mr Montesinos will say what the rest of the ex-ministers and officials have been saying: "that the president ordered him to do everything." Mr Montesinos is already said to have told investigators that Mr Fujimori told him to film all his meetings at the intelligence service. And although his word alone would not instil confidence, he probably has a video to back it up.

Mr Montesinos has returned to a different country from the one he left. Investigators are confident they have already identified some 80% of those involved in sleaze. Institutional reforms have begun under the transitional government. Cleaning out has started in the armed forces and elsewhere: of the 77 generals in the police force at the time of Mr Fujimori's fall, for example, 44 have been sent into retirement. The purge has been less drastic in the armed forces, but many officers have been sent home. The transitional government has also been strictly respectful of the autonomy of the judiciary, setting the tone for the new government of Alejandro Toledo, which takes office at the end of July.

Mr Montesinos's return may stiffen the spines of the judges, who had seemed to be going easy on some of the more powerful businessmen tarnished by their appearances in "Vladivideos". It may also demoralise suspected cronies of the spy chief, who were apparently working to obstruct investigations and unsettle the country. Many believe that the bomb that went off shortly before the recent election may have been the work of people close to Mr Montesinos. His arrest should cut the loyalists down to

size. As long as the spy-chief was at large, his enormous capacity to blackmail was a constant threat to stability. That threat, at least, is diminished.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Justice in Bolivia

Trial and error

Jun 28th 2001 | LA PAZ
From The Economist print edition

Give them reform, but not yet

AS JUNE began, Bolivia introduced a new and radically different penal code. It includes the full presumption of innocence until proven guilty, public trial by jury, the hearing of oral evidence in open court and the creation of a prosecution service that is independent, rather than an arm of the police.

This may be standard stuff in western countries, but it is a revelation in Bolivia, and a big step forward. Court cases there often drag on for four years or more before a verdict. Some 80% of Bolivia's prisoners are unconvicted, most of them behind bars because they cannot afford to post bail. Nonetheless, the country's main body of lawyers has asked the government to postpone the introduction of the new code for a year. "The courts are neither physically prepared, nor has there been sufficient training given," says Javier Guachalla, vice-president of the lawyers' college in La Paz.

The police, too, are not ready. Although Bolivia's chief of police, Walter Osinaga, is confident, public prosecutors are privately worried that they will not get enough police support to carry out prosecutions successfully. Mr Guachalla wonders how many of the police really understood their recent training in new procedures for gathering evidence, interviewing suspects and protecting a crime scene from tampering. "Sure, they all have their training certificates, but what they learned is doubtful," he concludes.

According to public surveys, Bolivia's police force is also one of its least-trusted institutions. Although Mr Osinaga says the police are "optimistic about the future and not afraid of the changes," he also admits the force needs to "introduce a new culture, and do more to recover its institutional values and ethics." Regaining the public's confidence may be the plan, but many expect the new procedures to expose the police to further bad publicity.

It will probably be at least three months before the first case is heard under the new trial system. Cases brought before May 31st will be tried under old procedures. But the justice minister, Luis Vasquez, is refusing to delay the new code. One more year will not make lawyers any happier about it, since many seem worried mostly about their ability to argue a case in open court. And Bolivia's prisoners and public agree that a cleaner justice system is both welcome, and long overdue.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Argentina

And now, “Big President”

Jun 28th 2001
From The Economist print edition

All-day Fernando de la Rua

NOBODY, it seems, wants to be left out of Argentina’s current boom in television reality shows. After the success of local versions of “Big Brother” and “Survivor”, a camera is now to be installed in the presidential palace, the Casa Rosada, to film everything (well, almost) that President Fernando de la Rua gets up to. The results will be edited and broadcast several times a day on the state channel, Canal 7: thus dispelling, it is hoped, the notion that the president spends his time twiddling his thumbs while his economy minister, Domingo Cavallo, runs the country.

Now watch the ratings plummet

This is a dangerous strategy. Mr de la Rua’s predecessor, Carlos Menem, was famous for his love of show business, even closing his 1995 presidential campaign with an appearance on the hit show “Videomatch”. In deliberate contrast, before his election victory two years ago, Mr de la Rua boasted in television commercials that he was a very boring man. Audiences agree: his appearances last year on several leading talk shows made their ratings plummet. Worse, when he decided to make his own appearance on “Videomatch” last December, a member of the audience upbraided him and left him looking embarrassed.

With a congressional election approaching in October, opinion polls suggest that over three-quarters of Argentines are dissatisfied with Mr de la Rua. That, says his circle, is at least partly due to his unsympathetic portrayal by Freddy Villarreal, an impressionist on “Videomatch”, and by leading newspaper cartoonists, such as Nik in *La Nacion*.

Mr de la Rua’s team is apparently pressing the media to be nicer. But it is unclear whether blanket exposure will help the president win back viewers, or whether they will vote that Fernando should leave the house in 2003.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Education in Canada

Suck it and see

Jun 28th 2001 | OTTAWA
From The Economist print edition

Ontario tries school vouchers

GEORGE BUSH may have given up school vouchers, but across the northern border Ontario's premier, Mike Harris, is being much braver. After several false starts, he has brought in a plan far more radical than anything yet seen in the United States. It offers parents who send their child to a private school a refund in the form of a tax credit. This will rise over five years in steps of C$700 ($460) a year to C$3,500, or half the cost to the province of keeping a pupil in a public school.

Critics say that the scheme will undermine Ontario's public schools, which they see as the foundation of an integrated society. Toronto, a smorgasbord of races and religions, has a reputation for tolerance. Mr Harris's opponents claim that encouraging more private and religious schools (Ontario now has 730 private schools, half of them linked to a church, synagogue or mosque) will lead to social breakdown and ethnic segregation. They also complain that private schools do not have to follow the official Ontario curriculum, that their teachers are not officially licensed and that pupils do not sit provincial tests. Private elementary schools are not regulated by the education ministry.

But Mr Harris is a shrewd politician. He swept to power in 1995 by promising a 30% cut in provincial taxes, while eliminating Ontario's C$9 billion budget deficit. He achieved both, mainly by wielding the hatchet. In particular, he cut the money for public schools, forcing closures in both cities and rural areas. Teachers went on strike when he increased their workload. The elected boards that run the schools were deprived of local tax revenues, even as student numbers were rising.

Mr Harris then held back from further reform while he concentrated on winning a second term in an election two years ago. He is probably on safe political ground with his new scheme. Six other provinces in Canada provide money directly to private schools. Mr Harris's plan differs in that it will give the money directly to parents.

That idea has widespread support among all parents who despair of the public schools, and particularly those who want their children educated in their faith. The idea of the tax credit began with a complaint to the United Nations Human Rights Commission in Geneva by several Jewish and Christian groups. They argued that a constitutional provision whereby Catholic schools received provincial funds was discriminatory. In its ruling in 1999, the commission agreed.

Mr Harris at first argued that the financing of Catholic schools was a special case, guaranteed by the 1867 British North America Act that created the Canadian confederation. It was aimed particularly at reassuring Catholic Quebeckers. Janet Ecker, Mr Harris's education minister, said that extending public financing to other religious schools would cost $500m-700m a year. Since Ontario's tax-credit scheme covers only part of the costs of schooling, that figure is now about $300m.

On June 27th, despite passionate objections from Ontario's Liberal and New Democratic opposition, Mr Harris got his way with the passing of the budget bill, in which the school-voucher plan was buried. With that, he has taken another step either towards undermining Canada's welfare state, or towards increasing individual freedom and national competitiveness. Take your pick.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Japan

A world to win for Koizumi

Jun 28th 2001 | TOKYO
From The Economist print edition

The “lionheart” of politics braves the United States

TO THE United States and Europe, then, for Junichiro Koizumi. Japan’s new prime minister leaves behind him a dazzling victory in Tokyo’s municipal elections and an adoring public pining for his swift return. The Japanese cannot get enough of him. Housewives queue to buy his posters. Screaming schoolgirls flock in their thousands to hear “Jun-chan’s” latest thoughts on structural reform. His rejuvenated Liberal Democratic Party (LDP) is rushing to produce imaginative new lines of Koizumi merchandise, among them dolls of Mr Koizumi wearing a lion-skin, a nod to the first issue of his e-mail magazine, which begins, straightforwardly, “I am Koizumi the lionheart.”

Britain and France are both to be honoured with a chance of a closer look at Japan’s celebrity leader as he zips around the world. But first, and most important, comes the United States, where Mr Koizumi meets President Bush on June 30th. Will they be wearing Jun-chan T-shirts at Camp David? There is much for America to like about Mr Koizumi. The customary economic measures he brings for Mr Bush’s inspection, rubber-stamped by his cabinet on June 26th, look superior to the usual dull LDP mix of pork-barrel public works and vague assurances of reform.

Privatisation, deregulation and a budget overhaul are all promised. So is a proper fix at last for Japan’s desperately weak banks, about which Jim Kelly, assistant secretary at the State Department and a Japan hand, is said to spend most of his time worrying. Japan has, of course, made plenty of promises before. But Mr Koizumi does a good job of making them sound as though they come from the heart. Equally encouraging is Mr Koizumi’s economic brain, Heizo Takenaka, who was a professor at Harvard. His trip to Washington earlier this month helped to banish some old prejudices about the competence of Japanese economic policymakers.

Warming to this new spirit of mutual intellectual respect, Mr Bush and Mr Koizumi will announce the creation of a bilateral economic forum, at which great thinkers from both countries will exchange nuggets of wisdom. This arrangement is supposed to help supplant the American hectoring of Japan that took place under bully-boys such as Larry Summers in Bill Clinton’s administration. With this come Mr Koizumi’s helpful attitudes towards reforming, or at least reinterpreting, Japan’s war-renouncing constitution.

Mr Bush puts great store in the future of America’s alliance with Japan, whose strategic importance as a check against Chinese expansion figures large in the minds of the Republican Party’s China hawks. A greater share of the security-alliance “burden”, a more active role for its self-defence forces abroad and a commitment to come to the defence of America’s troops in Asia if attacked are all demands that the Japanese have heard before from Republican presidents. In Mr Koizumi, however, the Americans at last have a Japanese constitutional hawk with mass appeal.

If he finds the right ground on which to fight for constitutional reform, Mr Koizumi may even make some progress. Reassurances that Japan shows “understanding” for Mr Bush’s missile-defence plans, together with a suggestion that it may join the United States and abandon the Kyoto protocol on climate change, promise a warm contrast to Mr Bush’s cooler reception in Europe.

These are not the only reasons Mr Bush will be going out of his way to cosy up to Mr Koizumi. Not surprisingly, the Americans have quickly grown mistrustful of Makiko Tanaka, Mr Koizumi’s foreign minister. They will be hoping to bypass the foreign ministry and instead exploit more direct routes of communication between the White House and the Kantei, Mr Koizumi’s official residence.

Mrs Tanaka's spirited fight with her ministry and her enemies in the LDP has put a few stoppers in Japan's conventional diplomatic channels. Visiting Americans can find no end of people to tell them that Mrs Tanaka is doing an awful job. She herself is threatening legal action against her top officials—whom she wants to sack for an earlier scandal—for leaking her private conversations with the foreign ministers of China, Italy, Australia and Germany. Whoever did the leaking did a good job, editing Mrs Tanaka's remarks to make the most of her pro-Asian, anti-American leanings. A generous handshake during her recent visit to Washington from Mr Bush—who she is reported to have said loves his missiles because of the Texan oil lobby—has helped to smooth over some of the awkwardness. But much remains.

Other problems loom on the horizon. With America's economy still slowing, Japan's many domestic weaknesses appear more threatening, especially the troubles of its banks, which could tip the economy into financial crisis at any time. Mr Koizumi's economic measures do offer some hope of new thinking in Tokyo (see article). But apart from the odd detail, his plans still look vague and undigested. Like Tokyo's foreign bankers, Mr Bush's economic team has begun to lose patience with Hakuo Yanagisawa, Mr Koizumi's minister in charge of the financial clean-up. Until recently, Mr Yanagisawa had a reputation as a reformer. But Mr Koizumi's slow progress in sorting out the banks has begun to leave the impression that Mr Yanagisawa is now holding things back.

A final worry is that Mr Koizumi's reforms lack any sense of priorities. If he tried a bit of everything at once—the most likely bet at the moment—Japan's economy would weaken badly. All the Americans want Mr Koizumi to tackle the bad loans first. For now, Mr Bush will politely keep these urgings private. But if Jun-chan does mess up the economy, don't expect the smiles to last.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

China and North Korea

Trouble comes knocking at the door

Jun 28th 2001 | BEIJING
From The Economist print edition

Refugees pose a problem for the Chinese as the Olympics verdict is awaited

FRIENDLY but firm, Chinese guards were this week maintaining a diligent watch over the Beijing office of the United Nations High Commissioner for Refugees, the UNHCR, to keep unauthorised people from coming or going. Those blocked from entering included North Korean and South Korean diplomats who dropped by for a quick look, and a gaggle of foreign journalists who were hanging about in the lobby of the building. Kept inside the building, meanwhile, were seven North Koreans who on June 26th had presented themselves at the UN office, asking for asylum and a safe passage to South Korea.

UNHCR officials say they are persuaded that the seven, all members of one family headed by 69-year-old Jung Tae-jun, would face arrest and persecution if they returned to North Korea. They are especially concerned about a 17-year-old member of the family who has made, and has now put on public display, drawings that portray famine conditions and police brutality in North Korea. For its part, South Korea has agreed to take them in. It is used to receiving North Koreans. Some 1,400 have escaped to the South since the Korean war ended in 1953.

The tricky bit will be persuading China to let them go. The government insists that these seven, together with all the other North Koreans who have poured into north-eastern China in recent years, are economic migrants rather than refugees. The distinction is crucial: according to a 1951 convention signed by China in 1982, economic migrants may be shipped back home as illegal aliens, while refugees must be protected and supported.

Estimates of how many North Koreans have sneaked into China range from 30,000 to ten times that number. Most of them try to blend in with China's own ethnic Korean communities near the border, and find work. Others make their way through China, crossing into Russia or Mongolia in the hope of getting to South Korea. Though China has refrained from the sort of extensive round-up it could mount if it chose to, the authorities have made a practice of returning to North Korea any migrants they catch.

Such homecomings are bound to be unpleasant since, under North Korean law, unauthorised border crossings are punishable by three years in a "reform institution". Above all, China has insisted that none should be considered refugees, a policy that has less to do with trying to please its neighbour and putative ally in Pyongyang than it does with keeping international organisations such as the UNHCR away from its border region. A statement by the UNHCR says China has reprimanded it for poking around the area in the past, and has been "reluctant to agree" to the organisation's "formal involvement" with its migrant Korean population.

That reluctance, says the editor of a Chinese political journal, is well founded. China is concerned not only with the current load of migrants, but also with the possibility that a sudden upheaval in North Korea could drive many more migrants into China. Should that happen, the government would want to manage things in its own way, without the meddling of international organisations. It is thus unfortunate for China that the seven well-protected guests in Beijing have now forced the issue.

It is simply "unthinkable", said the UNHCR's representative in China, Colin Mitchell, on June 27th, that his office would allow the seven to be turned over to North Korea. Five members of the family appeared at a window of the office, clasping their hands over their heads in a victory sign. Mr Mitchell said he would make the family as comfortable as possible and has bought bedding and food for them, but the office was not large.

Foreign diplomats, meanwhile, agree that any Chinese effort to try to send the family back to North Korea would be roundly condemned as cruel and callous. Less than two weeks before the International Olympic Committee votes on whether to award the 2008 games to Beijing, that is hardly an impression China wants to convey. China, then, may find itself forced to acknowledge the presence of refugees in its

midst and, in so doing, set a precedent that it will regret.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

East Timor's election

It's worrying, this democracy

Jun 28th 2001 | DILI
From The Economist print edition

An election campaign in East Timor is arousing more concern than enthusiasm

AP

The brighter side

WITH no great enthusiasm, the people of East Timor are preparing for an election designed to lead them to democratic government. They have reason to feel wary. The election will be held on August 30th, two years to the day after a referendum in which they voted by a huge majority for independence from Indonesia. In response, pro-Indonesian factions, backed by the Indonesian army, unleashed an orgy of killing and destruction. An earlier, short-lived experience of multi-party politics was also discouraging. Portugal's abandonment of its colony in 1975 brought a period of rivalry and mistrust that led to a short, bloody civil war followed by Indonesia's invasion.

"When the parties fight, it is us, the 'small people' that'll suffer," says Pedro Soares, who runs a noodle stall in Dili, and like other traders believes earning a living is what is important. His wife adds that the only thing she wants is enough to eat and a safe place to sleep. "Until we have that, we don't want to be bothered with elections."

Sergio Vieira de Mello, the chief of the UN transitional authority in East Timor, is sympathetic about Timorese fears of violence. But he believes that if the political parties play their part, things will be different this time. Thirteen parties have been approved, including the large and popular Fretilin, which for most Timorese represents the resistance to Indonesia. The UN will help the parties draft a pact of national unity, committing themselves to democratic principles.

In compiling the electoral roll, the UN has registered nearly 800,000 people as residents, almost all the estimated population. Now it is trying to explain the purpose of the election. This is not easy. The vote on August 30th is to choose 88 members of a constituent assembly, which then has 90 days to draft and adopt a constitution, and to decide whether to call more elections for a parliament or president, or, alternatively, to form a government and elect a president itself. When a government is formed, which Mr de Mello expects to happen in January 2002, the UN will step back and East Timor will become independent. But the UN will stay on to help build government institutions.

For many East Timorese, still unclear about the election procedure, the main question is who their future president will be. Many hope it will be Xanana Gusmao, the leader of the guerrilla resistance movement and later president of the CNRT, the umbrella organisation of the groups that opposed Indonesian rule. But Mr Gusmao used the dissolution of the CNRT on June 9th to step back from political life, and he has not publicly aligned himself with a party. Nevertheless, many Timorese believe that in the end he will be unable to refuse to accept the presidency.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Journalism in South Korea

Oh my

Jun 28th 2001 | SEOUL
From The Economist print edition

It's the news guerrillas

ONE evening last October Lee Joung Binn, then South Korea's foreign minister, was having drinks with his officials and some local journalists. He was chatting about a meeting he had had with Madeleine Albright, the American secretary of state at the time. When he hugged her, he is reported to have said, it felt as if her breasts were like those of a young woman. No newspaper printed his gallantry about the 62-year-old Mrs Albright. Yet soon the titbit was the talk of Seoul, and an embarrassment for Mr Lee, who has since been sacked. It was, though, a scoop for OhmyNews, one of the growing number of South Korean "newspapers" on the Internet.

OhmyNews claims to have hundreds of thousands of readers after a year in business. About a fifth of its stories are produced by professional journalists. The remainder come from what are called "news guerrillas", either novice reporters or ordinary members of the public who spontaneously send in an interesting yarn that may or may not have been checked, and about which they may or may not be disinterested.

Journalists on South Korea's print newspapers are sniffy about their Internet brethren. What about verifying the facts? What about fair comment? What about integrity? These are reasonable worries, but they also apply to print journalists.

Since South Korea ended government censorship in 1987, at the end of military rule, the freedom of the press is thought by some Koreans to have been abused. In a recent survey, over a third of the 703 journalists interviewed confessed that they were making more mistakes, partly because of the pressure of work. Even more alarmingly, about a fifth said they were paid by their sources—in effect, took bribes. Newspapers are being inundated with claims for damages. One Seoul court has 58 such cases pending.

Newspapers had another money worry this week when 23 media groups received demands for unpaid taxes amounting to a total of 506 billion won ($404m). Some newspapers have claimed that a tax probe started in April is an attempt to suppress them. But civic groups are not supporting what are seen simply as tax dodgers. Good citizens pay their taxes—and are expected to do their best to tell the truth.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Australia's asylum-seekers

Prisoners of the outback

Jun 28th 2001 | SYDNEY
From The Economist print edition

Protests over harsh policy

UNDER cover of darkness, seven people dug a tunnel beneath the barbed-wire fence of their detention centre in South Australia on June 9th and disappeared into the outback. Most stayed free for nine days, some even reaching Western Australia, 2,000km (1,250 miles) away, before being captured and returned to their prison at Woomera, a remote place once used to test rockets. Theirs was just the latest in a series of desperate measures by asylum-seekers whose treatment in Australia's detention centres has prompted criticism by human-rights groups and Australian parliamentarians alike.

A year before the latest escape, 500 detainees broke out of their Woomera compound and swarmed through the nearest town shouting, "We want freedom." In the past five months there have been six riots and breakouts at Woomera and other places, where buildings have been burned and guards have used tear-gas and batons against detainees.

Sea-borne refugees have been heading for Australia for the past 25 years, mostly from Vietnam and China. Since 1999, the number of boat people landing on the northern coast has more than tripled, many of the newer arrivals coming from Iraq, Iran, Afghanistan and other distant countries; over 2,000 boat people have arrived so far this year.

Australia has six detention centres. Three are in cities, Sydney, Melbourne and Perth. But the authorities in Canberra have responded to the growing number of asylum-seekers by building centres to isolate them in remote places, hoping that the vast, inhospitable distances between these prisons and civilisation will deter others from coming. Besides the one at Woomera, two have been opened at Port Hedland and Derby on Western Australia's scorching north coast.

Many detainees have been recognised as refugees and released on short-term visas. But over a third have had their refugee applications rejected, and many are kept languishing behind barbed wire for years while their appeals drag on. The outback detention centres, operated by a subsidiary of an American prison company, have become cauldrons of unrest. An inquiry was set up after allegations of child sexual abuse at Woomera. According to official figures, there were 232 incidents last year of inmates assaulting guards, holding hunger strikes or physically damaging themselves in protest; in Derby, some stitched their lips together. Two refugees have died taking part in protests.

The federal government, led by John Howard, allowed journalists to visit the Derby centre recently, but not to speak to its inmates. A committee of members of Parliament was less constrained. After visiting all six centres, the MPs reported on June 18th that they had been "shocked" by the conditions they had seen. One man, who had been detained for more than two years, told them, "I prefer to go back and be killed. Every day here I feel I am dying slowly." The committee recommended a maximum detention period of 14 weeks, after which asylum-seekers should be released under the sponsorship of community groups. But Philip Ruddock, the minister for immigration, says the parliamentary report is by people who "haven't had what I would regard as sufficient life's experience".

The minister's contempt has not struck a chord with many Australians, who are troubled by the moral questions involved. But there are signs that the government is pursuing its policy with a political nod towards another side of the Australian character, one that has long harboured anxiety about invasion by hordes from the north. In the centenary year of Australia's federation, Helen Irving, a constitutional pundit, believes these old anxieties, which bred a "white Australia" immigration policy 100 years ago (abandoned in 1966), have resurfaced to the point where Australia "sustains a refugee policy that is the harshest and most hostile of any comparable country". Another riot, or one more death, may force Australians to ask if she is right.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Sri Lanka

Getting at the president

Jun 28th 2001 | COLOMBO
From The Economist print edition

The opposition seeks a kill

A MAJOR political upheaval is in the offing in Sri Lanka. The immediate worry for President Chandrika Kumaratunga is how to thwart a motion before parliament of no confidence in her government. The motion may be debated any time in the next three weeks.

It has been signed by 97 members of the opposition. Parliament has 225 members, so 113 votes are needed to bring down the government. Of the signatories, 88 are from the United National Party (UNP), the main opposition group. It is led by Ranil Wickremesinghe, a nephew of a former president, Junius Jayewardene. The tussle is as much between two feudal families as between the two political parties that have alternately held power in Sri Lanka since independence in 1948. If the government fell, Mrs Kumaratunga would remain president and head of state: the president is elected separately. But she would suffer a serious blow to her prestige, and might have to endure a prime minister opposed to her policies.

The other nine signatories to the no-confidence motion are from three Tamil parties that are known to have links with the separatist Tamil Tigers, the government's opponents in the long-running civil war. By making common cause with them, the UNP has set itself on a collision course with the Sinhala Buddhists who make up 75% of the island's population.

How will Mr Wickremesinghe gather the 16 votes he needs? Some may come from the Sri Lanka Muslim Congress (SLMC). When news of secret talks between the two parties reached Mrs Kumaratunga, she sacked Rauf Hakeem, the Muslim party's leader, from her governing coalition. Of the 11 SLMC members of parliament, only seven have joined the opposition, with four continuing to support the government. The Muslims, about 7% of the population, are scattered throughout Sri Lanka. They run most of the retail trade and their traditional leaders loathe Mr Hakeem, regarding him as an Islamic fundamentalist in the making. That loathing is shared by the Sinhala Buddhists. Mr Wickremesinghe has acquired a difficult ally.

As things stand, Mrs Kumaratunga's coalition can muster 109 seats, four votes short of a majority. The balance of power is in the hands of the Janatha Vimukthi Peramuna, the JVP, once a rebel group but now treading the democratic path. It has ten seats in parliament, and will decide the outcome of the politicial tussle. The JVP has no love for Mr Hakeem. But Mr Wickremesinghe knows that politics is a devious game in Sri Lanka.

Mrs Kumaratunga has another worry that could undermine her authority. Parliament has before it a motion to impeach Sarath Silva, the chief justice of the Supreme Court. The motion cites "14 acts of misbehaviour" on the part of Mr Silva. One is that he was "living in adultery" with a woman "while his marriage to his lawful wife subsisted". This is unacceptable conduct in Sri Lanka. Mr Silva, a friend of Mrs Kumaratunga, was appointed chief justice over the heads of several eminent judges of the Supreme Court.

On June 27th Mrs Kumaratunga left on what was described as an "overseas tour". The prime minister, Ratnasiri Wickramanayake, was sworn in to take over her duties as executive president. Others were made caretakers at the defence and finance ministries, which Mrs Kumaratunga oversees. In Colombo the speculation was that she will be away for a while.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Germany

The clouds of gloom are gathering

Jun 28th 2001 | BERLIN
From The Economist print edition

Reuters

The slowdown in the economy poses a political challenge to Germany's chancellor, Gerhard Schröder

"THERE is no cause for panic," Germany's normally unruffled chancellor, Gerhard Schröder, says grimly, implying that some think otherwise. Not since 1996 has the outlook for Europe's biggest economy been so gloomy. According to Ifo, a Munich-based research institute, Germany can expect growth of no more than 1.2% this year. There is even talk of recession. Unemployment has been rising relentlessly for the past five months. Inflation in May reached an annual rate of 3.5%, its highest since 1993. Industrial production is tumbling. Business confidence is at its lowest in two years. And a general election is due in just over a year.

Panic? Well, maybe not. But there is a whiff of something approaching it in government ranks. Only a few months ago, the Social Democrats seemed a shoo-in for a second four-year term. The economy was chugging along nicely, or so it seemed. The ruling red-Green coalition appeared united, with its most controversial reforms safely out of the way. The opposition, the strife-torn, scandal-rocked Christian Democrats, seemed a spent force. Mr Schröder could even dream of winning an absolute majority in the next election, something no party has achieved since 1957.

But the latest crop of grim economic data is beginning to damage the smooth-talking chancellor. As recently as April he was still talking of being on a path of "robust growth", before agreeing to trim the government's forecast for the current year from 2.7% to 2.0%. Now, just two months later, it looks as if it may have to be revised sharply downwards again.

All the more dangerous for Mr Schröder, then, if Edmund Stoiber, the powerful premier of Bavaria and the leader of the Christian Democrats' sister party in that state, the Christian Social Union, were to decide to stand against Mr Schröder in next year's election. Bavaria, once one of (West) Germany's poorest and most sluggish *Länder* (states), is now one of its richest, most modern and prosperous. The lean, silver-haired Mr Stoiber radiates competence, authority, control.

Angela Merkel, the Christian Democrats' leader, appears in contrast to be almost a country bumpkin, woefully lacking the qualities needed to govern the country in troubled times. Even within her own party, more and more voices can be heard suggesting that the Bavarian premier would be the best person to take on Mr Schröder. According to the latest opinion polls, 56% of centre-right voters would like to see Mr Stoiber as their candidate for chancellor; a mere 16% opted for Mrs Merkel, leader of much the bigger party.

But Mr Stoiber has repeatedly said he will not stand, preferring to remain premier in Bavaria. What he wants, of course, is not necessarily the same as what he will do—given enough pressure. But his

persistent denials are leading some to think that he really does mean what he says. Mr Stoiber is nearly 60. In Germany's second-most populous state, where his party has held an absolute majority of the legislature's seats for the past 30 years, he can do pretty well what he likes. His wife of the past 33 years, to whom he is devoted, does not want to move.

Besides, there is still little evidence that he would win. Despite the darkening economic landscape, Mr Schröder remains well ahead in the opinion polls. Asked which party could best solve Germany's problems, nearly a third of respondents still plump for the Social Democrats, twice as many as choose the Christian Democrats; half consider no party competent. But, as Mr Schröder knows only too well, the public mood can change fast. And the danger signals are already there.

The Christian Democrats are now pressing the government to try to boost the flagging economy by bringing forward the income-tax cuts due to be phased in over the next four years and dropping its next planned rise in energy taxes. But the government is resisting. It has staked its reputation on its ability to control public spending and reduce new borrowing to nil by 2006. DM45 billion ($19.8 billion) has already been lopped off company and private-household tax bills this year. It is still hoping the cut will help pep up domestic demand, though there is little sign of that yet. With tax income weak because of reduced growth, and with mounting costs from rising unemployment and "mad-cow" disease, the government is now unlikely to meet this year's planned public-spending deficit of 1.5% of GDP.

On the economic front, Mr Schröder has little room for manoeuvre. He could try to tackle some of the infamous rigidities in Germany's labour market—but not with a general election looming. Indeed, in some respects the rigidities may be worsening. Last week several regional health-insurance funds said they would put up premiums. That will scupper the government's pledge to bring health and other social-welfare contributions below the equivalent of 40% of gross wages. A law strengthening company works councils, passed last week as a sop to the unions, will not help either.

But Mr Schröder should not be underestimated as a tactician. He already has a solid set of reforms behind him, and just last weekend, after years of wrangling, two more were approved: a new revenue-sharing scheme among the *Länder* to run from 2005 until 2020, and a new DM306 billion "solidarity pact" for the former communist eastern states. Moreover, despite the election, he is forging ahead with further controversial legislation: an immigration bill and a reform of civil-service pensions promised for this autumn.

Few economists believe there is a serious danger of recession in Germany, in the sense of negative growth over at least two quarters. Most guess that the economy will begin to pick up in the second half of the year, after a poor second quarter. But no one doubts that from now on the going will be a lot rougher for Mr Schröder.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

France

Tickets, please

Jun 28th 2001 | PARIS
From The Economist print edition

Another embarrassment for Jacques Chirac, France's president

DOUBTLESS South American drug barons and the Russian mafia have good reasons for paying for their airline tickets in cash. But a respectable French politician, like Jacques Chirac, former mayor of Paris, former prime minister and now president of the French republic? According to the latest leaks from the French judiciary, between November 1992 and March 1995 some FFr2.4m ($300,000) were given in cash to a travel agency near Paris to pay for tickets and holidays for Mr Chirac and his family. Not surprisingly, France's investigating judges would like to know what was wrong with a cheque or a credit card.

Reuters

Was the billet too doux?

The answer is quite straightforward, say the president's men. The tickets were booked in cash for "obvious reasons of discretion and security" and the money all came from secret but legal funds accrued by Mr Chirac when he was France's prime minister.

Ah yes. But Mr Chirac stopped being prime minister in 1988, so the judges may well share the astonishment of François Hollande, the Socialist Party's secretary-general, that Mr Chirac waited so long before spending the cash. Perhaps, muse the suspicious, the money came from illegal kickbacks during Mr Chirac's tenure as mayor of Paris from 1977 to 1995.

In any event, could such suspicions be proved? Citing the immunity that the constitution confers on the presidency, Mr Chirac has so far refused to be questioned about various scandals associated with his time as mayor of Paris. These include the accusation that, when he doubled up as both mayor and prime minister, some $720,000 was handed in cash to one of his aides while he was present.

Clearly, Mr Chirac can continue to invoke presidential immunity. But it is equally clear that this does not extend to other beneficiaries of the airline tickets, notably his wife Bernadette and his daughter Claude, who is also his "personal adviser". The investigators are apparently seeking guidance from the Paris prosecutor. In the meantime, as *Le Monde* puts it, the judges are at the doors of the presidential palace. Let's hope the holidays were worth it.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

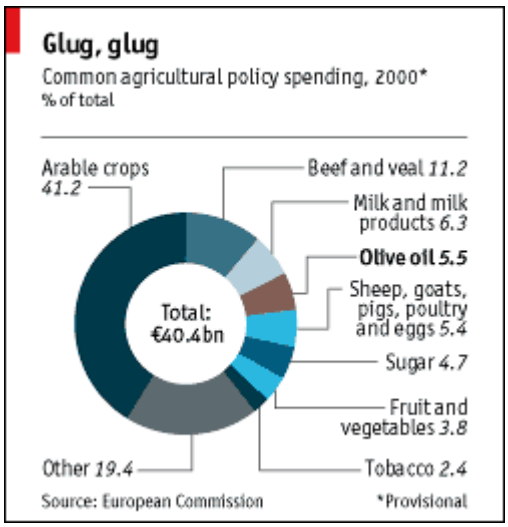
The EU and olives

Glut, fraud and eco-damage

Jun 28th 2001 | SEVILLE
From The Economist print edition

The EU spends 2.25 billion euros a year subsidising olives. It shouldn't

OLIVE farmers around the European Union, more than 2.2m of them, got good news this month. The EU's system of subsidies for olive-oil producers is to be extended for a further three years. Even the European Commission in Brussels says it is disappointed that reform has been deferred yet again, after pressure from the southern oil-producing countries, Spain, Greece, Italy and Portugal.



The olive programme is an example of the kind of EU agricultural policy that is rapidly going out of fashion. With other commodities, such as cereals and beef, farmers are increasingly given direct payments unrelated to production—or are even paid not to produce. But olives still enjoy a pure production subsidy: the more you produce, the more you get in subsidy. At the last count, the olive-subsidy cash totted up to 2.5% of the EU's entire budget. Spanish farmers reckon they get around half their income from Brussels.

The result is a surge in production. In Spain, the EU's largest producer, olive groves line the route of the train from Madrid to Seville. In parts of Andalusia in the south, the groves stretch over the horizon as far as the eye can see; olive mania is such that trees have even been planted on traffic islands. In a bid to control the olive boom, the EU ruled in 1998 that trees planted after that year would not qualify for subsidies.

But the plethora of newly planted trees in Andalusia suggests that fraud is widespread. Since the subsidy is based on the amounts delivered to olive mills, it is impossible to check whether the oil has come from old or new plantings. Indeed, this week newspapers in Seville cheerfully reported that another 40m Spanish olive trees are about to come into production, on top of more than 300m already bearing fruit in Spain and around 500m across the rest of the EU.

Many of the new plantations, as well as illicitly winning subsidies, have been planted where forests have been illegally cleared. Past practice suggests that the culprits may eventually be granted an amnesty. Farmers also know from precedent that, even if they are prosecuted, they are unlikely to suffer. A recent report from the EU's Court of Auditors found that from 1985 to 1998, in cases where olive-oil subsidies were found to have been illegally claimed, only 6% of the money was ever recovered.

This boom in plantations means that Europe is well on the way to an olive-oil lake. The Court of Auditors predicts that, despite rising sales, within a few years there will be a large surplus.

The intensive production encouraged by the subsidies is bad for the environment too. The olive tree is well adapted to the Mediterranean climate and requires little water in its natural state. But intensive cultivation, which can produce 20 times as many olives as a traditional grove, needs irrigation. Whereas a traditional olive farm is a bucolic sight, with large, widely-spaced trees providing cover for grass and grazing animals, the trees in new plantations are tightly packed, scrubbier and usually grow on shallower soil. They soak up vast amounts of water in parched areas of Spain whose citizens—in cities such as Seville—are on occasional summer days banned from turning on their taps for more than two hours.

Intensive production is also a main cause of desertification and soil erosion across southern Europe. The soil in many places has become less naturally productive and rivers are running dry and silting up. It is an irony that, having helped to bring this about with its subsidies, the EU is now putting millions of

dollars into a programme to combat the environmental damage done by intensive farming to the marshland of the Donana national park in Andalusia.

Eurocrats claim that at least the subsidies provide jobs and help rural development in some of the EU's poorest areas; that, after all, is the ostensible purpose of the Union's common agricultural policy. But intensively farmed groves with smaller trees, pesticides and drip irrigation need relatively little manpower. Gregorio Lopez of Coag, a union of small farmers based in Jaen, in southern Spain, complains that many of the intensive farms are owned by banks and insurance companies, whereas his members are struggling to cope with falling prices.

He and his colleagues want the subsidies decoupled from production. The European Commission agrees that any reform will have to move in this direction. A recent report from the World Wide Fund for Nature suggests linking subsidies to the amount of land under production rather than the amount produced, so that traditional farming is as well rewarded as the intensive kind.

That will not happen for some time—because of this week's three-year extension of the EU's current regime. Eurocrats argue that the system cannot be reformed until a thorough aerial survey of olive groves has been carried out. But that has been an excuse since the 1980s. The truth is that the intensive olive-tree farmers have an extremely effective lobby, and with those handouts from Brussels of $2 billion-plus a year they have lots of money with which to bolster their interests.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Charlemagne

Giulio Tremonti

Jun 28th 2001
From The Economist print edition

From tax lawyer to Italy's treasurer

LYING on the desk in his opulent Milanese office are the Communist Manifesto and a magazine of Donald Duck comic strips. His first front-page column for *Corriere della Sera*, in 1986, and an oil-painting by a trade-union friend hang on the wall. On the shelves are a photograph of himself with Britain's failed Conservative, William Hague; a Bush-Cheney campaign ribbon; the framed copy of a fat cheque from a journalist who lost a libel case against him; and a photograph of a Spanish actress with the now displaced treasury minister, Vincenzo Visco, who is so heartily disliked by the new man that a sheet of paper has been stuck over his image.

Such are the adornments of Giulio Tremonti. Italy's new economics minister combines childish enthusiasm with ambition, wariness, wide interests, chutzpah and humour. For the first time, both treasury and finance ministry come under one man. Given the grand promises of his prime minister, Silvio Berlusconi, both to slash taxes and to spend copiously on Italy's infrastructure, Mr Tremonti has his work cut out. He is radical, bookish, right-wing and ardent in his boss's cause. "You see this office? I have another in Rome. Last year I earned 10 billion lire [$4.6m]. It's costing me a lot of money to be a minister."

Mr Tremonti is 54 but looks younger. He was born in the mountains of northern Lombardy but his land-owning, timber-trading family comes from the hinterland of Veneto. "Venice is built on Tremonti poles," he says. One ancestor, Luigi, helped defend the city against the Austrians in 1848. Young Giulio was a noisy student at Pavia University in the 1960s. By 1974 he had won a chair in tax law—which he still holds. Two weeks after Mr Berlusconi's election victory in Italy in May, Mr Tremonti says that Oxford offered him a fellowship by e-mail, which he proudly shows off; he says he intends to take that job too.

In his time he has had some interesting and prescient ideas. He has long emphasised the increasing mobility of capital. In 1991, in a book called "La Fiera delle Tasse" (The Tax Fair), he wrote: "All the state once had to do to control wealth was to control the land; the state printed money, dispensed justice, raised taxes. That's gone. In the International Republic of Money, the state can't choose how to tax wealth; it's for wealth to choose where to go and how much to be taxed." More recently, in another tome called "Lo Stato criminogeno" (The Crime-Inducing State), he states: "An expanding state makes too many laws, which then multiply the potential for crime, which sooner or later trivialises crime itself."

Turning to more immediate matters, he reels off his list of priorities. First, Italy needs more fixed-term contracts for its workers. Second, he must spend more on infrastructure—roads, bridges and so on. Third, he must enact a new Tremonti Law, building on the one he pushed through as a minister in 1994, to let companies off tax on profits they reinvest. Fourth, the south's black economy must be brought into the open. Fifth, accounting methods and tax laws must be simplified. As an apparent afterthought, he jots down the figure 0.08%—the portion of Italians' taxes which can be diverted, if a taxpayer so wishes, to the church. "That was my idea," he adds modestly.

He is less keen to dwell on the twists and turns of his political past. He was close to the ruling Socialists in the 1980s. He helped Sicily's anti-Mafia politician, Leoluca Orlando, to write an economic plan, joined a liberal group called the Democratic Alliance, then got into parliament in 1994 under the aegis of Mario Segni, a leading reformer who pushed for referendums.

It was then that he joined Mr Berlusconi's team to become finance minister during his first unhappy stint in office in 1994. Thereafter he became the centre-right's leading authority on tax. But he has displayed political skills too, notably in forging an alliance between Mr Berlusconi's Forza Italia and Umberto Bossi's rowdy federalist Northern League. He defends that liaison. "The way the league expresses itself is unusual, I know that. But look at the substance. People who think it is dangerous are quite wrong. The league has been a democratic safety-valve for northern protest. Nothing violent about that at all."

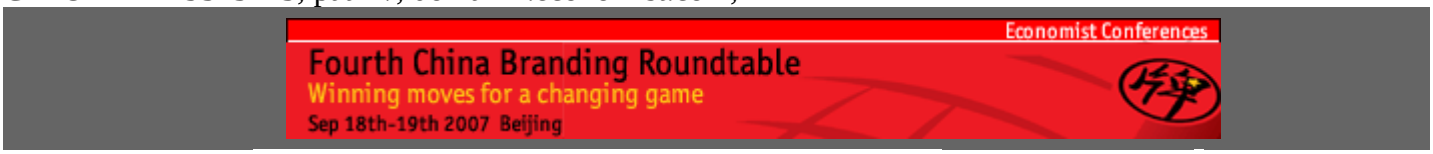
Mr Tremonti says that he and Mr Berlusconi, the tycoon-turned-politician who is Italy's richest man, complement each other. They first met, he says, in 1982. Asked if he has any idea how Mr Berlusconi got rich in the first place, he says: "Yes, I can work that out. I'm a tax lawyer. But I'm not *his* tax lawyer. His companies provide just 1% of my business, that's all." Then he adds, with a smile: "I have never thought he is a force of evil, as someone at *The Economist* seems to think."

What about the new prime minister's conflicts of interest? "Of course it's a problem. But I see it empirically. Communists want to know who has the power. Liberals want to know who controls it. But let me tell you that in Italy there's no shortage of checks and balances: parliament, judiciary, media, public opinion." Will Mr Berlusconi sell his assets? "I can't tell you." Won't many of your decisions as minister, however honest, be viewed with suspicion? Accusations of self-interest were cast at the Tremonti Law in 1994; similar ones were thrown last month, when the new minister proposed to scrap death duties. Mr Tremonti smiles again. "Okay, I'll tack a proviso on to every bit of legislation, saying, 'This applies to everyone except Silvio Berlusconi'."

One thing, however, turns Mr Tremonti's smile into a grimace: mention of Mr Visco, his predecessor, who once said that "Giulio Tremonti is responsible for degrading Italy's tax system." He was also quoted as saying that Mr Tremonti "just isn't competent—he's only a former Socialist who's climbed on the bandwagon." Earlier this year Mr Tremonti called his rival "a gangster accountant". Be that as it may, the world's markets are banking on Mr Tremonti to keep Italy's budget deficit from widening too fast again—and to ensure that Mr Berlusconi's entrepreneurial exuberance does not get out of hand. Maybe he will.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

HTTP/1.1 200 OK Connection: close Date: Mon, 23 Jul 2007 09:13:54 GMT Server: Microsoft-IIS/6.0 X-Powered-By: ASP.NET PICS-Label: (PICS-1.0 "http://www.rsac.org/ratingsv01.html" l on "2003.01.06T14:26-0400" exp "2006.01.01T12:00-0400" r (v 0 s 0 n 0 l 0)) Content-type: text/html; charset=ISO-8859-1 Page-Completion-Status: Normal Page-Completion-Status: Normal Page-Completion-Status: Normal Set-Cookie: CFID=15257065; path=/; domain=.economist.com; Set-Cookie: CFTOKEN=19343143; path=/; domain=.economist.com;



Charlemagne

Giulio Tremonti

Jun 28th 2001
From The Economist print edition

From tax lawyer to Italy's treasurer

LYING on the desk in his opulent Milanese office are the Communist Manifesto and a magazine of Donald Duck comic strips. His first front-page column for *Corriere della Sera*, in 1986, and an oil-painting by a trade-union friend hang on the wall. On the shelves are a photograph of himself with Britain's failed Conservative, William Hague; a Bush-Cheney campaign ribbon; the framed copy of a fat cheque from a journalist who lost a libel case against him; and a photograph of a Spanish actress with the now displaced treasury minister, Vincenzo Visco, who is so heartily disliked by the new man that a sheet of paper has been stuck over his image.

Such are the adornments of Giulio Tremonti. Italy's new economics minister combines childish enthusiasm with ambition, wariness, wide interests, chutzpah and humour. For the first time, both treasury and finance ministry come under one man. Given the grand promises of his prime minister, Silvio Berlusconi, both to slash taxes and to spend copiously on Italy's infrastructure, Mr Tremonti has his work cut out. He is radical, bookish, right-wing and ardent in his boss's cause. "You see this office? I have another in Rome. Last year I earned 10 billion lire [$4.6m]. It's costing me a lot of money to be a

minister."

Mr Tremonti is 54 but looks younger. He was born in the mountains of northern Lombardy but his land-owning, timber-trading family comes from the hinterland of Veneto. "Venice is built on Tremonti poles," he says. One ancestor, Luigi, helped defend the city against the Austrians in 1848. Young Giulio was a noisy student at Pavia University in the 1960s. By 1974 he had won a chair in tax law—which he still holds. Two weeks after Mr Berlusconi's election victory in Italy in May, Mr Tremonti says that Oxford offered him a fellowship by e-mail, which he proudly shows off; he says he intends to take that job too.

In his time he has had some interesting and prescient ideas. He has long emphasised the increasing mobility of capital. In 1991, in a book called "La Fiera delle Tasse" (The Tax Fair), he wrote: "All the state once had to do to control wealth was to control the land; the state printed money, dispensed justice, raised taxes. That's gone. In the International Republic of Money, the state can't choose how to tax wealth; it's for wealth to choose where to go and how much to be taxed." More recently, in another tome called "Lo Stato criminogeno" (The Crime-Inducing State), he states: "An expanding state makes too many laws, which then multiply the potential for crime, which sooner or later trivialises crime itself."

Turning to more immediate matters, he reels off his list of priorities. First, Italy needs more fixed-term contracts for its workers. Second, he must spend more on infrastructure—roads, bridges and so on. Third, he must enact a new Tremonti Law, building on the one he pushed through as a minister in 1994, to let companies off tax on profits they reinvest. Fourth, the south's black economy must be brought into the open. Fifth, accounting methods and tax laws must be simplified. As an apparent afterthought, he jots down the figure 0.08%—the portion of Italians' taxes which can be diverted, if a taxpayer so wishes, to the church. "That was my idea," he adds modestly.

He is less keen to dwell on the twists and turns of his political past. He was close to the ruling Socialists in the 1980s. He helped Sicily's anti-Mafia politician, Leoluca Orlando, to write an economic plan, joined a liberal group called the Democratic Alliance, then got into parliament in 1994 under the aegis of Mario Segni, a leading reformer who pushed for referendums.

It was then that he joined Mr Berlusconi's team to become finance minister during his first unhappy stint in office in 1994. Thereafter he became the centre-right's leading authority on tax. But he has displayed political skills too, notably in forging an alliance between Mr Berlusconi's Forza Italia and Umberto Bossi's rowdy federalist Northern League. He defends that liaison. "The way the league expresses itself is unusual, I know that. But look at the substance. People who think it is dangerous are quite wrong. The league has been a democratic safety-valve for northern protest. Nothing violent about that at all."

Mr Tremonti says that he and Mr Berlusconi, the tycoon-turned-politician who is Italy's richest man, complement each other. They first met, he says, in 1982. Asked if he has any idea how Mr Berlusconi got rich in the first place, he says: "Yes, I can work that out. I'm a tax lawyer. But I'm not *his* tax lawyer. His companies provide just 1% of my business, that's all." Then he adds, with a smile: "I have never thought he is a force of evil, as someone at *The Economist* seems to think."

What about the new prime minister's conflicts of interest? "Of course it's a problem. But I see it empirically. Communists want to know who has the power. Liberals want to know who controls it. But let me tell you that in Italy there's no shortage of checks and balances: parliament, judiciary, media, public opinion." Will Mr Berlusconi sell his assets? "I can't tell you." Won't many of your decisions as minister, however honest, be viewed with suspicion? Accusations of self-interest were cast at the Tremonti Law in 1994; similar ones were thrown last month, when the new minister proposed to scrap death duties. Mr Tremonti smiles again. "Okay, I'll tack a proviso on to every bit of legislation, saying, 'This applies to everyone except Silvio Berlusconi'."

One thing, however, turns Mr Tremonti's smile into a grimace: mention of Mr Visco, his predecessor, who once said that "Giulio Tremonti is responsible for degrading Italy's tax system." He was also quoted as saying that Mr Tremonti "just isn't competent—he's only a former Socialist who's climbed on the bandwagon." Earlier this year Mr Tremonti called his rival "a gangster accountant". Be that as it may, the world's markets are banking on Mr Tremonti to keep Italy's budget deficit from widening too fast again—and to ensure that Mr Berlusconi's entrepreneurial exuberance does not get out of hand. Maybe he will.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

The Balkans

Hope and fear

Jun 28th 2001 | SKOPJE
From The Economist print edition

Serb war criminals may be handed over, but Macedonia is still on the brink

Get article background

EPA

Macedonian patriot in full cry

A CAUTIONARY tale to dissuade diplomats and soldiers involved with the Balkans from being too quick to rest on their laurels? Just as years of pressure on the Serbs to ditch Slobodan Milosevic and hand him over for trial on war-crimes charges seemed to be bearing fruit, the western world looks dangerously close to losing control over the conflict between Slavs and ethnic Albanians in Macedonia.

On the night of June 25th, as thousands of Slavs rallied outside and inside the Macedonian legislature—some of them armed and some baying for Albanian blood—it looked as though President Boris Trajkovski's control might be slipping too, and with it all hope of stemming the country's slide into mayhem. Over the next couple of days, things settled down a bit as Mr Trajkovski appealed on television for calm, and insisted that he had given his considered assent to the military operation that had prompted a burst of Slavic ire. This was the escort by American soldiers of several hundred fully armed ethnic-Albanian fighters out of the village of Aracinovo, on the north-eastern outskirts of Skopje, the capital, after Macedonian government forces had tried unsuccessfully to blast them out of existence.

The fact that the fighters were allowed to keep their weapons—and were obligingly taken back to villages near the Kosovo border north of Kumanovo, which are their unchallenged strongholds—was a propaganda coup for the National Liberation Army, the rebel force whose declared aim is enhanced political rights for Macedonia's Albanians. But the biggest fillip of all for the NLA, which only a few months ago seemed like an obscure handful of bandits confined to some snowy mountain villages, was the "own goal" scored, politically and militarily, by Macedonia's clumsy army.

Tension had begun to rise a few days earlier. With Slavic hardliners urging Mr Trajkovski to let his army hit back harder, and as Albanian politicians increased their demands, the Macedonian army had suddenly breached a truce by assaulting Aracinovo with tanks, artillery and helicopter-gunships—to absolutely no effect. The fighters' ability to withstand this attack and then win themselves an American escort away from the line of fire was a moral victory beyond their dreams.

So, in a perverse way, was the ugly racial hatred that seemed to surface among the Slavs as the extent of the Albanians' cheek became clear. A Slav paramilitary group known as the Lions began to daub menacing graffiti on the walls of Skopje. Albanian businessmen were threatened with death. Civilians with criminal links started to appear with guns from the government's arsenal.

When an ethnic group's survival seems threatened, its self-appointed protectors—in this case, the NLA—can easily persuade people, at least in their own community and in the outside world, that they are indispensable. It then becomes harder to dismiss them as a handful of marginal extremists.

That, apparently, was the reasoning of François Léotard, the EU's envoy to Macedonia, who, on the eve of his arrival on June 27th, proposed rather tactlessly that the Slav-led government should hold its nose and negotiate with the rebels: a realistic assessment, perhaps, but one that so enraged the Slavs that he was obliged to backtrack within 24 hours.

As Mr Léotard, who watched the Balkans as French defence minister from 1993 to 1995, probably remembers, the line between legal and regular and illegal and irregular forces becomes blurred on all

sides when countries slide towards ethnic war. So, in the end, pledges not to “negotiate with terrorists”, which NATO and the EU have repeatedly made with respect to Macedonia, may have to be broken.

One who understands moral ambiguity

This blurring was equally well understood by Mr Milosevic, who in the early 1990s quietly encouraged the activities of paramilitary thugs in Bosnia and Croatia while denying any responsibility for them. It now seems likely that he will soon be answering for these activities, as well as the ethnic cleansing of Kosovar Albanians which is the first ground for his indictment at the United Nations war-crimes tribunal in The Hague.

On June 23rd the Yugoslav government issued a decree providing for the extradition of war-crimes suspects. Five days later, the constitutional court suspended the decree—which was clearly aimed at Mr Milosevic—pending further consideration of its legality.

So the extradition may not quite come in time for a conference in Brussels on aid to Serbia on June 29th, which America, having pressed hard for concesssions on the war-crimes issue, agreed to attend only at the last moment. But the latest events should help the mood at a meeting of international creditors in mid-July, when Serbia’s crippling external debt will be on the agenda.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Turkey

Is it wise to abolish Virtue?

Jun 28th 2001 | ISTANBUL
From The Economist print edition

The ban on Turkey's Islamist party shows its generals' heavy-fistedness

Get article background

Reuters

That was when his Virtue was rewarded

AFTER pondering the matter for two full years, Turkey's Constitutional Court, the highest judicial body in the land, last week decided that the Islamist Virtue party, the largest opposition group in parliament, flouted Turkey's secular constitution—and should therefore be banned with immediate effect. This has caused ructions at home and abroad. It threatens to make the government much less stable. It could well become harder for outside bodies such as the IMF to help mend Turkey's shaky economy. And it will strengthen the voices of those in the European Union who think Turkey unsuited to be even a candidate to join their club of democrats. Many of Turkey's friends abroad, and its reformers at home, see behind the verdict the hand of Turkey's politically pushy generals, deny it though they do.

The court ruling does not, in fact, mean that all the 102 members of Turkey's 550-strong parliament who have represented Virtue will be expelled or prosecuted. Although their party has been dissolved by law, the fourth time an Islamic-minded party has been given that treatment in the past 32 years, its representatives can stay on in the chamber as independents. But two Virtue MPs have been singled out for expulsion: Nazli Ilicak and Bekir Sobaci.

Mr Sobaci is indeed a bit of a firebrand. Mrs Ilicak's treatment has caused more of a stir. She by no means fits the image of a doctrinaire advocate of political Islam. In her 50s, she does not wear the traditional Muslim headscarf. She drinks alcohol, enjoys engaging in sophisticated public debate with men, and writes a lively column that frequently lambasts the generals in an Islamic-leaning daily newspaper. Many Turks took exception to her behaviour two years ago when she accompanied to the parliament's inaugural session another female Virtue deputy, Merve Kavakci, who sought to become the first Turkish woman to be sworn in while wearing a headscarf. For this, Mrs Kavakci was stripped both of her seat and of her Turkish citizenship, and now lives in exile in the United States.

By expelling only two MPs, the court avoided precipitating a general election. Had an election been called, the austerity plan recently forced through by the government at the request of the IMF in return for pledges of some $16 billion in emergency loans would almost certainly have been torn up, prompting yet another financial crisis, just when the economy has begun to show glimmers of recovery.

But on most other fronts the outlook is bleak. For one thing, it is unclear which of the other parties in parliament, if any, the independents will now back. They may rock the wobbly three-party coalition government. One bit of it, the far-right Nationalist Action Party under Devlet Bahceli, has already begun to woo the former Virtue members. Mr Bahceli denies that he is keen to displace the ailing Bulent Ecevit as prime minister. But with 127 seats to Mr Ecevit's 132, Mr Bahceli would have to bring over only a handful of ex-Virtue people to make his Nationalists the biggest party in parliament. At that point, his followers would urge him to become prime minister instead of Mr Ecevit.

Now 76, Mr Ecevit is increasingly frail. If the crowd-pleasing Mr Bahceli did take over, the IMF-blessed economic reforms would probably be ditched, along with Kemal Dervis, the able new economy minister who masterminded them. Politics would become more volatile. The EU, which has monitored Turkey's democratic progress closely since accepting the country in 1999 as a candidate to join the western club, would shake its head sadly. Too bad, Turkey's generals would probably think: their special definition of "secularism" must be defended at all costs.

After all, the generals claim, Turkey is a better place than most of its Muslim neighbours. Thanks to the founder of modern Turkey, Kemal Ataturk, their country is still—they argue—among the most democratic in the Muslim world. Women have more rights than elsewhere. Indeed, many secular-minded Turks have cheered the generals along. Political Islam in Turkey, some say, has been wiped out.

Will the Islamists really fade away?

It is true that a recent opinion poll credits Virtue with less than the 10% support it would need to win any seats in parliament in a general election. But Turkey's other main parties are doing even worse: the same poll shows Mr Ecevit's Democratic Left running last, behind the pro-Kurdish People's Democracy Party, which also faces a possible ban.

Most Turks would evidently prefer to be led either by Mr Dervis or by Recep Tayyip Erdogan, Istanbul's Islamist former mayor. Polls put them neck-and-neck. In 1998 Mr Erdogan was banned from office and politics for life, and served four months in prison in 1999—for inciting a religious rebellion by publicly reciting a poem taught in state schools (and written by a poet Ataturk admired).

Claiming that his offences were expunged by an amnesty law passed last year, Mr Erdogan is putting together a new political party. His friends say he is backed by over 70 of the MPs who were in Virtue and by most of its provincial branches; many of them are fed up with the continuing influence of Necmettin Erbakan, the autocratic founder of Turkey's Islamist movement, who led them to power for the first time in 1996 but was pushed out of it a year later at the behest of the generals.

Eager to reinvent himself as a pragmatic centrist, not the religious zealot he once was, Mr Erdogan declared recently that Turkey was in need not of "men with well-groomed beards who can recite the Koran perfectly" but of people who can run the country efficiently. He has also been befriending retired generals. The chances are, however, that the courts may again rule against Mr Erdogan. If they do, Abdullah Gul, a calm and popular Virtue deputy, may take up the new party's reins.

In any event, bans are unlikely to destroy the Islamists. By disqualifying openly pious politicians like Mr Erdogan, the generals risk strengthening the very enemies they are eager to destroy. As one Islamist, Ali Bulac, puts it, the main question today is not whether Islam can adapt to democracy but whether Turkish democracy can manage to accommodate the modern world's wealth of beliefs and ideologies—including political Islam.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Spain's government

All a bit embarrassing

Jun 28th 2001 | MADRID
From The Economist print edition

The prime minister may be rattled by accusations against his foreign minister

AS HE stood up this week in parliament and proudly listed his government's achievements (more jobs, faster economic growth, greater influence abroad, a better legal system) and plans for the future (tax cuts, revamped education, helping to make the EU more citizen-friendly), Jose Maria Aznar, Spain's centre-right prime minister, notably omitted one item: clean government. That was high on the list when he took office in 1996, after ousting a long-serving Socialist government whose fall had been caused largely by corruption. Now that same whiff of suspicion may, unless he dispels it fast, start to hang over his own People's Party (PP).

Reuters

Pique ponders his position

The worst recent news for Mr Aznar was a decision by state prosecutors to ask the Supreme Court to question the foreign minister, Josep Pique, in connection with alleged fraud committed when a Spanish firm, Ercros, sold a subsidiary to the French oil company, Elf. Mr Pique was a director of Ercros before he joined the government.

He insists he has nothing to hide and is eager to clear his name. But that sits ill with the attorney-general's manoeuvrings to prevent him from having to appear in court. The case particularly embarrasses Mr Aznar because, until recently, he has viewed Mr Pique both as his own protégé and as his government's star turn.

The pair met in 1995 when Mr Aznar was seeking to forge links between the PP and businessmen in Mr Pique's home region, Catalonia. Mr Aznar was so impressed by the ex-communist Catalan's eloquence (in contrast to his own sterner mode of expression) that he offered him the industry ministry in his first government. By the end of it, Mr Pique had become the government's spokesman too.

When Mr Aznar won last year's general election, Mr Pique jumped over the heads of several senior PP figures to take the plum job of foreign minister. Mr Aznar also marked him down as a secret weapon to help him oust the nationalists from Catalonia's presidency, though a recent opinion poll suggests that Mr Pique is now rather unpopular on his home ground.

The Socialists, who might have been expected to make a meal out of Mr Pique's case, have been fairly reticent: their own scandals of the 1990s are not forgotten. But Communists in the United Left group have urged Mr Aznar to fire his foreign minister, along with the environment minister, Jaume Matas, who is also caught up in a row over a local election count.

"No one has been charged," retorted Mr Aznar, who is always loth to sack ministers and who kept on some very lame ducks in his first government. But the case is already eroding confidence. Not only is the left-leaning newspaper *El Pais* attacking Mr Aznar over the affair. So is the more conservative *El Mundo*, which makes a point of campaigning against corruption.

Moreover, Mr Aznar has other worries. Inflation has crept up to 4%, salaries are not keeping pace, the trade unions have been on the streets complaining that their members are feeling the pinch. Many Spaniards do not appreciate the benefits of privatisation extolled in Mr Aznar's speech to parliament. Instead, they moan about the pilots of Iberia, the recently privatised airline, who are disrupting holiday travel with a series of strikes, just as they did when the airline was in state hands.

Mr Aznar is particularly disappointed by events in the Basque region, where his PP did much worse than he had hoped in last month's regional elections. Even though nationalists seeking independence won quite easily, Mr Aznar continues to insist that his first priority is not to reopen a political dialogue with

non-violent nationalists but to crush militarily the separatist terrorist group, ETA, which this week tried to kill a retired general.

Mr Aznar is having an uncomfortable time abroad too. His determination to keep EU funds flowing in, even after new countries join the club from the east, has borne little fruit while creating much ill-feeling in Brussels. That could make it harder for Spain when it takes on the EU's six-month presidency early next year. Mr Aznar did, at least, get on well with President George Bush when he visited Spain at the start of his European tour this month.

Too gloomy? Mr Aznar is still eight percentage points ahead of the Socialists in the opinion polls. He has a majority of seats in parliament, and no need to worry about a general election for almost three years. But sticking by Mr Pique if he is formally charged, or trying to get him off the hook, might hurt Mr Aznar quite a bit.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Low-cost airlines

Britain takes to the air

Jun 28th 2001 | LUTON
From The Economist print edition

Low-cost carriers are transforming not just the travel business in Britain, but also the way people live

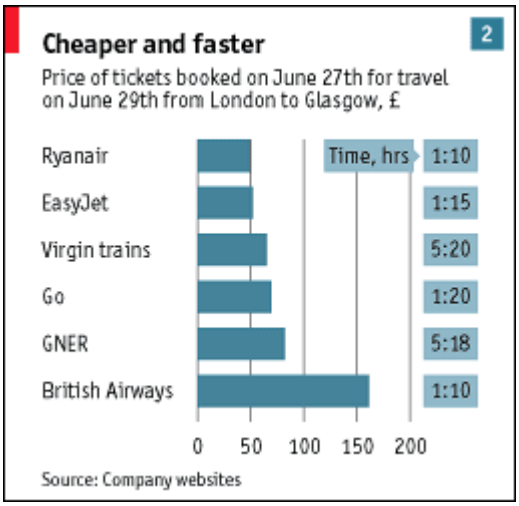
Get article background

THE air of gloom surrounding much of European business made Ryanair's results, announced on June 25th, particularly impressive. The low-cost airline reported a 37% year-on-year increase in pre-tax profits, and its chief executive, Michael O'Leary, said he expects business to grow by 25% over the next year. Thanks to Ryanair and its sort, Britons are beginning to hop on and off planes the way Americans do.

Air travel in and around Britain has grown by nearly 40% in the past five years, but the really spectacular growth has come from the low-fare airlines, which have carried around 20m passengers in the past year. By spotting and satisfying the untapped demand for travel from and between the regions, they have fuelled the growth of Britain's smaller airports and undermined Heathrow's dominance.

EasyJet, the first of the low-cost carriers, was set up in 1995 at Luton. Eastwards around the M25 at Stansted are Ryanair, Go, the low-cost offshoot of British Airways (BA) sold to a management buy-out earlier this year, and Buzz, the British arm of KLM, which uses the airline partly to feed its international hub at Amsterdam. While Heathrow has seen the number of passengers rise by about 19% over that period, traffic at Luton and Stansted has more than trebled (see chart 1). Traffic at Liverpool's airport nearly quadrupled.

Demand for air travel is highly elastic. Bring down the price and sales rise sharply. The low-fare carriers are often cheaper not just than the mainstream operators but also than the railways (see chart 2). While low-fare airlines keep their fixed costs to a minimum, the railways are burdened by the need to maintain and improve their crumbling network. Last year was a disaster for them. A crash blamed on a cracked rail led to mass disruption as managers tried to locate and mend other dodgy rails. Delays drove passengers onto the airlines.



Low-cost airlines fill their planes differently from mainstream carriers. BA, British Midland, Air France and Lufthansa aim to make their money out of business travellers who pay over the odds to enjoy meals and

loads of drinks in the air and on the ground in exclusive lounges. The economy seats are sold off, discounted as need be, some in advance and some at the last minute. Cheap seats are made available through downmarket travel agencies which publicise their deals through newspapers' classified columns.

The low-cost carriers see their aircraft as a series of buckets. The first set of buckets are the lowest-priced seats, with the eye-catching prices. Once these are all sold, demand flows into the next, slightly more expensive, bucket of seats. As the flight's departure approaches, seats get progressively more expensive. On a typical low-cost flight there could be up to ten different price buckets, with one-way fares ranging from £30 ($42) to £210. But even the most expensive tickets tend to be cheaper than for the mainstream airlines.

Early assumptions that the low-cost carriers would struggle to make headway in the business market, because businessmen do not care how much their companies pay for their tickets, have turned out to be wrong. Stelios Haji-Ioannou, EasyJet's founder, says that one of the things he first noticed when the airline launched was how many business passengers he seemed to be carrying. Not that business travellers are set apart, since everybody piles into the same no-frills cabin, with free-for-all seating and pay-for-all drinks and sandwiches; but business travellers tend to book late (and so more expensively) and travel mid-week. It turns out that businessmen are more price-sensitive than had been assumed. Some, presumably, are running their own businesses, so have an interest in keeping costs down; others are responding to cost-cutting memos from above.

Wired for take-off

The Internet has also helped the low-cost airlines. Airline tickets rival pornography as the hottest-selling commodity on the Internet, with sales estimated at more than $5 billion worldwide. Mainstream airlines sell around 5% of tickets over the web. EasyJet decided to focus on Internet sales, so it offers discounts for online booking and has built a site that is easy to use. These days, some 90% of EasyJet bookings are made online. Ray Webster, EasyJet's chief executive, reckons that older or techno-illiterate people get a younger or more wired friend to do it for them.

Some 65% of Ryanair's bookings are made online. Even this figure is twice as high as the highest e-booking airline in America, Southwest, the original low-fare, no-frills carrier which was the model for the British low-cost operators.

The low-cost airlines have not just brought down the price of flying. They have changed the way British people travel, and also where they live, holiday and work. Air travel no longer involves the crowded hell of scheduled flights at Heathrow or charter flight delays at Gatwick. Cheap fares and European second homes have almost replaced house prices and school fees as a topic for dinner party chat.

At four o'clock on a summer afternoon at Luton airport, a queue is forming for the 5.40 to Edinburgh. A holidaying couple are returning to Edinburgh from Spain. The EasyJet flight was so cheap that it was worth their while taking an Airtours package from Luton, rather than flying from Scotland. Behind them is a management consultant who uses EasyJet from Luton because he lives just three exits up the M1 and it is quicker than hacking round the M25 to Heathrow. A technology transfer specialist at the Medical Research Council in Edinburgh says EasyJet is a way of coming down to London once a month for a fraction of the fare on British Airways or British Midland. "It seems silly paying extra when you are dealing with public funds," she explains.

Businessmen from small and big companies alike are hopping onto cheap flights. Robert Jones, shipping and travel manager for Smit Land and Marine, a Liverpool-based Anglo-Dutch pipeline company, reckons he is saving £50,000 a year by using budget airlines. Half of his company's regular 30 trips a month from Liverpool to Amsterdam are by EasyJet, at £120 each, instead of the £350 he would spend on a scheduled airline. Travelling to Spain, he saves around £500 a trip. And, he says, the low-cost airlines make it easier to change passenger names if one employee has to substitute for another at a meeting. According to airport managers at Liverpool, since Ryanair and EasyJet have built up their flights from the city, the number of executive-type cars parked at the airport has shot up.

Leisure travel is changing too. Until recently, most people flew once or twice a year, to Florida or the south of Spain. These days, people increasingly hop on planes several times a year. It's no big deal any more. A salesman in a London electronics shop says his parents have a holiday house in the south of France, which he had stopped visiting after they stopped paying for his holidays. Recently, however, he has discovered that if he books ahead on the Internet, he can fly EasyJet to Nice and back for under £50,

making a monthly visit an affordable treat.

Perhaps the most astounding change is the number of long-distance commuters using the new airlines. Hang around long enough at Luton and you will meet a businessman or woman, usually middle-aged owners of companies in the south-east, who spend half their week as lotus eaters in Provence, nipping back for the other half to oversee their business being handled day-to-day by their staff. Most incredible of all, there is a resident of the Luton area who commutes to bustling Glasgow every morning, only to return to lovely Luton in the evening. That could be called some sort of progress.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Riots

Living apart

Jun 28th 2001
From The Economist print edition

AP

White and brown areas in Britain's northern towns are segregated. Why?

A MONTH after Asian and white youths rioted on three hot nights in the northern industrial town of Oldham, the temperature rose again, and it was Burnley's turn. The sequence of events in both places—from minor incident to major riot in minutes—was very similar, as are the conditions in which the violence flared—segregated white and brown people united only by suspicion of each other.

As in most northern towns, Burnley's 6,000 Asians, about 7% of the population, moved into late-19th-century terraced housing when they arrived in the 1950s and 1960s. They clustered together, like Jewish or Irish arrivals in Britain before them, more secure among their own people. But unlike previous arrivals, Asians do not seem to have spread out across their adopted towns. Nor did the local councils, which used to control much of the housing in these areas, succeed in reducing segregation. Both Burnley and Oldham have neighbourhoods where the population, and school rolls, are over 90% Asian.

Much of this is explained by colour prejudice. The Commission for Racial Equality (CRE) says that discrimination by private and public landlords, and by estate agents, meant that immigrants stayed in their enclaves. Although much of this was exposed and stamped out in the 1970s and 1980s, some discrimination continued into the 1990s. In 1993 the CRE found that Oldham's council was offering Asians inferior or segregated housing.

Economics trapped the Asians, too. The collapse of labour-intensive textile manufacture meant that few had enough money to trade up the local housing ladder. And because white people did not want to move into Asian areas, the price of Asians' houses stayed low, preventing them from selling up and moving out.

These days, says the CRE, fear of white racial harassment is also keeping the brown people corralled. Asian fears that the police are not exactly colour-blind seemed justified when Shahid Malik, a member of the CRE and of Labour's national executive committee, was injured in clashes on June 25th. He claimed that while trying to calm things down, he was hit in the face and knocked unconscious by a policeman wielding a riot shield.

Discrimination and racial harassment were both highlighted as problems in a report into council housing in Bradford, published last week by the Chartered Institute of Housing. It asked why social housing is taken up by so few of Bradford's Asians. Here again, minority groups were found to fear vandalism and racial abuse if they took up council housing in white estates, although the report also noted their wish to remain near their families wherever they moved, which may have sustained racial divisions. More disturbingly, the report found evidence of "block busting". When Asians try to move into white areas, some estate agents reportedly warn white residents of a potential threat to their house prices. The estate

agents thus generate sales, while the whites leave the area.

Oldham council has only recently started to tackle the suspicion that segregation generates by, for example, pairing primary schools so that children can learn more about people of another colour. But nobody thinks there is a quick solution. Richard Knowles, the council leader, admits it may take 25 years before the root causes of the problem are overcome.

Still, it can be done. Leicester, where brown and black faces were 28% of the population in 1991 and may be more than 50% by 2011, was labelled Britain's most racist city 30 years ago. Local newspapers carried adverts telling immigrants to stay away, and racist organisations like the National Front were active.

But Leicester, a more prosperous place than the riotous towns of the north-west, has changed. In Burnley, a British National Party candidate got 11% of the vote in this year's general election. In Oldham, two BNP candidates got 11% and 16% of the vote. In Leicester, the BNP man got 2%.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Politics and society

The new underclass

Jun 28th 2001
From The Economist print edition

Pity the poor toffs

NICE guys finish last in politics. So Michael Ancram, the amiable former chairman of the Conservative Party, who now wants to lead it, would probably be disappointed—even without his family skeleton. This handicap is far graver than, say, being in the pay of the tobacco industry, or having a homosexual past—potential problems for two of Mr Ancram's rivals. They will probably be too discreet to say so, but the terrible truth is, the poor chap is posh.

PA

Nice daughters, shame about the class

Foreigners tend to think that most Britons are floppy-haired, ineffectual fops. Brits, though, have a keener sense of the subtle gradations of class. A man like Michael Heseltine, a former Tory deputy prime minister, walks like a toff and sounds like a toff, but as a former colleague once observed, he "bought his own furniture". Tony Blair's educational background is often cited as evidence of poshness, but in truth the prime minister is merely a middle-class professional. By contrast, they don't come much posher than Mr Ancram (to real toffs, the royal family are foreign arrivistes). The son of a marquess, he is married to the daughter of a duke.

Some of the genuine upper class claim that, alone among minorities, they remain a publicly acceptable target for wholesale derision. Aristos, they say, are being ghettoised in a narrow range of industries, such as the army, art dealerships and estate agencies. Universities discriminate against them. Certainly, there is a lot of toff-bashing in the media, which tends to be populated by middle-class people who like to pretend they're not. But that makes it difficult to gauge the true extent of popular anti-toff sentiment.

Long ago, though, when it was evidently better at changing with the times, the Tory party decided that an aristocratic leader would be too great an electoral liability. In 1923 it chose the relatively inexperienced Stanley Baldwin ahead of the more rarefied Lord Curzon ("a most superior person"). Another symbolic break came in 1998, when Viscount Cranborne—whose family had been at the heart of British politics since the reign of Elizabeth I—was sacked as Tory leader in the House of Lords. The Tories have prided themselves on choosing leaders from humbler backgrounds than their adversaries. The Labour Party has been readier to elect leaders from (relatively) high social strata, perhaps to reassure voters of its gravitas.

Mr Ancram does share one advantage with a number of successful politicians, such as George W. Bush. He boasts two attractive young daughters, who apparently spend much of their time pursuing the few activities still open to people of their sort—skiing, modelling, that sort of thing. But their aesthetic appeal may be outweighed by his embarrassing aristocracy.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Bagehot

Ideas, at last

Jun 28th 2001
From The Economist print edition

Politicians are now having the arguments that should have been aired during the election

WHOEVER expected such a boring general election to usher in such a tumult in British politics? Less than a month after the election delivered its expected result, battle is underway for the souls of both main parties. The mock-debates of the campaign—on taxation, on how to organise public services, on how to position Britain in Europe—have turned abruptly into real arguments on these subjects.

Perhaps it should have been expected. During the election, both main parties took cover behind prepared, question-begging soundbites. With the election over, the parties are no longer pretending to argue with one another in order to win votes. They are arguing internally about what to do. From a spectator's point of view, this makes for much better sport.

The big eruption of the past week has been that of Lord Hattersley, a former deputy leader of the Labour Party, against the present leadership's interpretation of equality, the big idea on which most people suppose the Labour movement to have been founded. In a newspaper article, Lord Hattersley appealed to party members to "rise up against the coup d'etat which overthrew the legitimate philosophy". He was outraged by Tony Blair's refusal in a television interview to say that a Labour government should help the poor by increasing taxes on the rich.

For Lord Hattersley, this was the final chilling proof that the prime minister had succumbed to the noxious doctrine of meritocracy. Meritocracy could at most offer the able ladders out of poverty and deprivation, but "the Labour Party was created to change society in such a way that there is no poverty and deprivation from which to escape." Lord Hattersley says that Mr Blair's Labour Party stands for very little that can be identified with social democracy and that now is the time for all good egalitarians to come to the aid of its original philosophy. The party's apparatchiks immediately dismissed Lord Hattersley as a figure from the past, sadly out of touch with majority opinion. But Lord Hattersley makes an excellent point that resonates with Labour activists of all ages and will return to plague the inventors of New Labour as the novelty of office begins to wear off.

The prime minister's more immediate difficulty is his attitude to the public services. Having had the temerity to question Labour's traditional prejudice that public provision is good and private provision bad, he now stands accused of replacing it not with a new idea but with the same prejudice in reverse.

This poses more of a problem for him than Lord Hattersley's excellent point because it strikes at vested interests, in the shape of the public-sector trade unions, and not merely at philosophy. Mr Blair hopes to allay the fears of the unions while still pressing home his reforms. That was the point of his inviting union leaders to Downing Street this week: his talent for persuasion, especially over dinner, is the stuff of legend. But not even Mr Blair will win this argument without thinking through the missing details on just how to harness the private sector to Britain's public services.

In the Conservative Party, matters are complicated by the need to identify a new leader as well as a new bundle of political ideas. Be they from right or left, all the MPs who have volunteered to take the place of William Hague, self-banished to atone for leading the party to electoral ruination, say with the wisdom of hindsight that he should have had more positive things to say during the campaign about how to improve the public services and less about the peril that joining the euro theoretically poses to freedom, democracy and the British way. There is an entertaining symmetry here: the Tories are having to admit that public can be good at the very moment when Labour is having to admit that private can be good. Then again, neither the size of the state nor the state of the public services is going to be the divisive issue in the Tory leadership campaign in the weeks ahead. It is social tolerance, and the euro, that divide the party today.

Even Tories need ideas

When Kenneth Clarke, a former chancellor of the exchequer, confirmed this week that he would join the race, he asked the party to stop arguing about Europe, a quarrel which he said had poisoned its internal politics for a decade. His simple selling proposition is that, under him, the Conservatives might once again come to be electable. This is not because he possesses some splendid new political thought but because he is a popular politician, with long experience in great offices of state, who will not repeat Mr Hague's mistake of turning the party's hate-affair with Europe into an all-consuming obsession that voters consider weird. By implication, much of Mr Clarke's appeal lies not in his ideology but in his lack of one. Here, say friends, is a plain, likeable, capable fellow who judges issues on their merits and knows a thing or two about the public services.

Mr Clarke is standing on his personal qualities rather than his political ideas because his main political idea—a well-known enthusiasm for Europe's single currency—is out of tune with his party's well-known hatred of it. But even the Conservative Party, with its long history of craving power for its own sake, needs big ideas as well as capable leaders if it is to return to power. If the Tories are not to be in the business of defending Britain from a federal Europe, what is their business, especially now that Labour has stolen most of their other ideas? Mr Clarke offers the party social liberalism plus friendliness to the European Union. Michael Portillo, his main rival, offers social liberalism plus suspicion of the EU. Iain Duncan-Smith and other candidates on the right offer suspicion of the EU plus "traditional values", whatever they may be.

These arguments are illuminating and interesting. It seems a shame, though, that politicians did not choose to explore them at a time when the electorate was likelier to be listening.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Bursaries at Oxford

Brown-nosing

Jun 28th 2001
From The Economist print edition

Oxford is using its money to bid for clever, poorer students

THIS time last year the battle of Laura Spence was in full swing. On one side was Oxford University, on the other Gordon Brown, the chancellor of the exchequer. Mr Brown accused the university of bias against applicants from state schools, such as Ms Spence. The university said this was nonsense. And in the specific case of Ms Spence, most neutral observers awarded a points victory to the university.

But some of the chancellor's comments obviously hit home: this week Oxford unveiled the country's first university bursary scheme. It is to offer £2,000 over the three years of an undergraduate degree to about 400 students a year from poorer backgrounds in order to widen access. To qualify for a bursary, students must have a family income below £20,000.

Oxford's bursaries will initially be funded by £1m from an anonymous donor. But, extraordinarily, the individual colleges, always loath to cough up, are putting their hands into what are often very deep pockets to contribute towards a central fund to keep the scheme going. And, American-style, Oxford is also looking to its alumni.

Oxford's move addresses a general worry about the university system, as well as a particular concern about the perceived snobbery of the place. Since the government introduced tuition fees and phased out maintenance grants there has been growing anxiety that the prospect of student debt is deterring poorer pupils from applying to universities.

Oxford's bursaries are too small to make much of a difference at a time when even a frugal student can now run up debts of £12,000 over three years. And the National Union of Students points out that Oxford's scheme will only affect 0.1% of next year's university entrants. The government, under pressure from its own backbenchers, has introduced a scheme to help a few more. From this autumn, 7,000 students will benefit from bursaries.

Oxford may be rich among British universities, but it cannot hope to afford the sort of social engineering that goes on in Ivy League universities. At Harvard, for instance, 50% of the students enjoy "scholarships" from the university worth, on average, $19,000 (£13,400) a year. But then, by many estimates, Harvard is the second biggest charity in the world after the Roman Catholic church. In the last five-year period of alumni fund-raising, the university had hoped to raise $2.1 billion. It overshot, and raised $2.6 billion instead.

Still, Oxford's move will be studied with great interest, and alarm, by other universities. For the first time, this comparatively rich university is using its financial muscle as the American universities do, to bid for clever, poorer students. Other, less well-endowed universities will not be able to do the same. The gap in quality of students between the elite group of older universities, such as Oxford, Durham or Bristol, and the rest is likely to widen.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Public services and the private sector

Punch-up ahead?

Jun 28th 2001
From The Economist print edition

Tony Blair's plan to reform public services will succeed only if he picks the right ground on which to fight vested interests in the public sector

JUST three weeks after the election, the government is embroiled in a battle that could determine the success of Labour's second term in office. The trade unions have been squaring up against plans to make greater use of private companies in delivering public services. To cool inflamed tempers, ministers have been talking down the scale of Labour's ambitions. In a throwback to past Labour governments, the trade-union barons have been entertained at Number 10—though over dinner rather than beer and sandwiches.

Despite the sweet-talking, the strategic intention remains as clear as when Tony Blair launched Labour's manifesto. The prime minister declared then that more money was not enough to renew the public services. Fundamental reform was also vital and "no barriers, no dogma, no vested interests" should stand in the way. This week he reiterated that commitment, saying "we are not going to back down on the essential reform of public services".

Labour's chosen device to bring about reform is the public-private partnership. PPPs are Labour's flexible friend—a conveniently malleable term covering a host of diverse arrangements. What they have in common is that the public sector no longer supplies the service, but commissions and pays for it.

In principle, PPPs could be used to outsource all sorts of public services, helping to raise standards by extending choice and competition. In practice, they have been focused mainly on a relatively limited range of ancillary services related to new buildings and their subsequent operation. This is because PPPs—whose supposed advantage is the blending of public funding with private provision—have actually been driven by private money. The dominant form of public-private partnerships have been schemes under the Treasury's Private Finance Initiative (PFI).

With the PFI, government departments and public agencies no longer have to pay for expensive capital rebuilding programmes up front out of their own budgets. Instead they can reach deals with private consortia that raise money from banks, which is repaid over periods of about 30 years. Since the Treasury can always borrow money more cheaply than the private sector, the concept of PFI has always appeared suspiciously like hire-purchase, with tomorrow's generation of taxpayers picking up the bill. To fend off this charge, the PFI agreements deliver not just new infrastructure but related operating services over the lifetime of the asset.

Typically, big construction companies join forces with firms that specialise in the provision of services like building maintenance and cleaning. PFI enthusiasts argue that this in itself can generate savings, since the project design will strike the right balance between initial building costs and subsequent maintenance expenses. They also claim that the

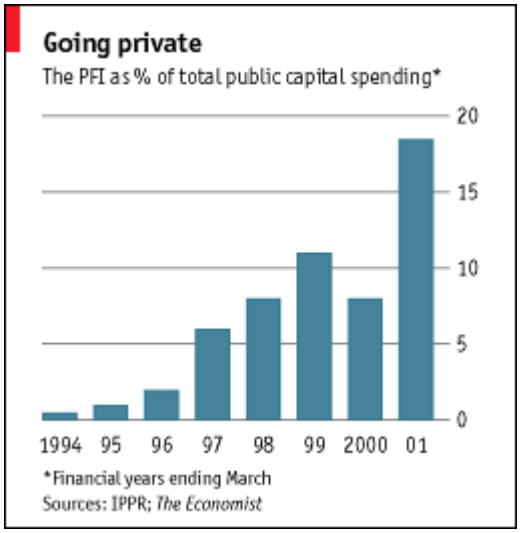
In the money

The PFI's leading financial players

Company	Sector	Number of projects	Value of projects £bn
Eversheds	Law	58	1.7
Clifford Chance	Law	47	10.3
Linklaters	Law	45	7.1
PwC	Management consultants	95	8.7
KPMG Corporate Finance	Management consultants	56	2.6
Deloitte & Touche	Management consultants	38	2.7
Royal Bank of Scotland	Banking	55	4.3
Bank of Scotland	Banking	48	3.7
Barclays	Banking	39	2.7
Willis UK	Insurance	57	10.4

Source: International Financial Services London

public sector is less exposed to risk than is the case with traditional procurement. It does not have to dig into the public pocket when construction delays and overruns occur.



Despite these supposed advantages, the real reason why PFI deals have taken off is that they allow spending departments to escape the Treasury's purse-strings. In 2000-01, they accounted for almost a fifth of total publicly-sponsored capital spending—up from about a tenth in the previous three years. As an inquiry published this week by the Institute for Public Policy Research (IPPR) argued, public-sector managers have concluded that they are "the only game in town".

Nowhere is this clearer than in the NHS hospital-rebuilding programme. Since May 1997, six new hospitals have been completed and work has started on a further 21. Of these, only four are publicly-funded schemes, accounting for less than a tenth of the total £2.2 billion capital expenditure. A further 41 PFI hospital schemes, involving capital expenditure of £5.4 billion, are currently being negotiated. The reach of the PFI has been no less startling in the prison service, where it has accounted for all four new prisons built since 1997. In the past four years, PFI agreements have also been reached to modernise 449 schools at a capital value of more than £800m; and an additional 148 schools are scheduled to be rebuilt under the scheme.

Thanks to the lure of private money, the private sector has thus become heavily involved in big public-sector infrastructure programmes. But the gains from this kind of PPP are relatively limited. The IPPR inquiry concluded that PFI schemes had delivered good value for money in roads and prisons but only marginal benefits in schools and hospitals.

By contrast, PPPs remain a modest affair where their potential is the greatest—in the delivery of the core public services in health and education. In 1998-99, spending on services for publicly-funded patients treated outside the National Health Service accounted for only about 5% of total expenditure. This should increase under the "concordat" between the NHS and the independent health sector, but only to a limited extent. In education, three publicly-funded schools are now being run by private-sector organisations. Ten local education authorities have outsourced managerial and support services.

Yet if the government seriously wants to achieve fundamental reform of the core public services, this is where it should be concentrating its efforts to promote PPPs. Whatever the merits of the public-sector ethos, it comes at a price. In the private sector, failing organisations and managers are driven relentlessly out of business. In the public sector, they tend to just carry on failing. Encouraging diversity of provision will help to ginger up public-sector incumbents. Successful new entrants can set new standards of provision which will provide benchmarks for public providers. They can also inject much-needed management skills into the public services.

Significantly, the PFI schemes that have been rated most highly are new prisons. This is for two reasons. Private-sector managers have been given a free hand to operate the core custodial service as well as the ancillary services of maintaining the prison. And unlike their public-sector counterparts, they are not handcuffed in their employment practices by the powerful Prison Officers' Association.

If the government is to make a success of reform, one pre-condition is essential. The public sector must become better at procuring services. This may not be easy. "If the public sector is no good at traditional procurement, why should it be any better at procurement through PPPs?" asks Tony Travers, a specialist in government at the London School of Economics.

More importantly, the government must be determined to push reform through. The unions are already flexing their muscles in order to protect their public-sector power base. Mr Blair needs to show that if necessary he can wrestle them to the ground to promote the interests of patients and parents. PPPs

could be the test of his mettle in his second term.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

The Internet and health care

Bed2bed

Jun 28th 2001
From The Economist print edition

A new website wants to bring the NHS and private health care closer together

LAST October, the NHS announced a "concordat" with the private health-care sector, in a bid to relieve some of the pressure on its overstretched, underfunded service by moving patients into private facilities for elective surgery and other care. In practice, although communication between the sectors has improved, co-ordination is still far from smooth. Within the NHS, doctors' surgeries are overflowing with clients who have to wait, on average, just over four months for in-patient treatment, according to the King's Fund, a health-policy group. Meanwhile, more than one-third of the beds in private hospitals are empty at any given time. So how can private supply be made to meet public demand?

Roger Hymas thinks the Internet is one solution. On June 28th, he launched e-concordat, an online exchange putting private health-care providers such as hospital chains and independent consultant groups in touch with purchasers within the NHS. Private hospitals or specialists can list when and where they are available for what sorts of services and at what prices. On a separate part of the site, NHS purchasers can post their shopping lists.

Since the provider listings are anonymous, parties who take a fancy to each other can make contact through e-concordat's parent company, Health Care Navigator, which will get the negotiations going. Providers will be charged a fee for every successful transaction, and any profit from the business will be ploughed back to the NHS purchasers. Later this year, the firm also plans to launch a site (www.combinedops.co.uk) offering much the same service to individual patients, who are paying out-of-pocket for private health care in ever increasing numbers.

Mr Hymas hopes that e-concordat will not only ease the flow of patients from public- to private-sector providers, but also introduce an element of price competition between private providers. At the moment, the charge for, say, a hip replacement in one private London hospital is double that in a neighbouring facility; making such information clearly available on e-concordat may help equalise things.

Such business-to-business Internet exchanges are common in other industries, trading everything from soyabeans to car parts. But as many a dotcom entrepreneur has painfully discovered, health-care professionals are slow in adopting Internet novelties. That said, a few private hospital groups—including a consortium from continental Europe—and some NHS officials have expressed an interest. The site, as Mr Hymas points out, is a work in progress since "anything that is set in stone in health care usually ends up broken."

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Higher education

University challenge

Jun 28th 2001
From The Economist print edition

A shortage of students is forcing many universities to cut capacity

WHEN it was revealed last week that 35% of Britons between 18 and 30 were now attending university, there was general applause. The government's next target, enunciated during the election campaign, is to reach 50% by 2010. Odd, then, that so many universities are firing staff and shrinking capacity.

The problem is student numbers. Last year, some 52 universities failed to meet their targets for student recruitment as set by the Higher Education Funding Council for England (HEFCE), the primary government funding agency for higher education. Many of these were the old polytechnics that had been granted university status in 1992, but some famous names, such as Imperial College of Science and Technology in London, also failed to fill their places.

The University of Luton, formerly a college of higher education, failed to meet its recruitment target of 2,000 students by 250. This meant that the university had to return a proportion of the block grant that it receives from the HEFCE worth about £4m—some 8% of the university's overall budget. At the University of Sunderland, similarly, full-time enrolments were 4%, or 119 students, below the HEFCE's target. Courses such as electrical engineering attracted hardly any applicants.

Staff cuts follow on from falling rolls. Luton is to lose about 50 academics out of a total of just under 1,000. The history department used to have six staff, now there are two.

Part of what is going on is restructuring forced on universities by a shortage of cash. Tim Boatswain, Luton's pro-vice-chancellor, argues that student numbers have been increased on the cheap. Since the late 1980s, the percentage of 18-30-year-olds in higher education has risen from 20% to 35%. But at the same time, the "unit of resource"—the money per student provided to universities by the HEFCE—has declined by 38%. So newer or poorer universities can no longer afford the sort of "universal" provision of subjects that used to be expected of a university.

Luton, and other places like it, are beginning to focus their resources on particular areas. From this September, Luton will specialise in "clusters" of academic activity where there is still demand and which offer good employment opportunities for students when they graduate.

This trend is leading to amalgamations and "consortia", as universities seek to cut overheads and pool resources in subjects such as engineering or geology. In London, where there are no fewer than 40 universities and colleges, Guildhall University and the University of North London are in merger talks, possibly with a third university as well. The plan is to pool resources to compete more efficiently for students.

The newer universities also argue that since many of them are in poor parts of the country, they have been worse-hit by the charging of tuition fees and the ending of maintenance grants. Local pupils from poorer families have been discouraged from going to university, especially in the current economic boom. Rich universities can find ways around this problem (see article). Poor ones can't.

But there is a more fundamental problem, too. The main reason for the shortfall in student numbers at many universities is what the HEFCE calls a "lack of qualified demand". In a country that still has one of the lowest OECD rates for pupils staying on in post-16 education (only 30% of the age-cohort does A levels), there are simply not enough 18-year-olds with good enough qualifications to take up all those university places. And, naturally, that limited pool of qualified demand wants to go to the older, more prestigious universities, rather than the new ones.

According to the HEFCE, there would have to be a "step-change" in A-level attainment to produce anywhere near enough students to reach the 50% target. At the moment, that looks very unlikely (or

“challenging”, in the jargon). What is happening is that roughly the same percentage of the age group is taking A levels, but they are getting ever better grades. And if the numbers of those getting A levels does rise, and demand for university places with it—well, by that time so many university departments will have gone out of business that there won’t be the places to accommodate them.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

AIDS in Nigeria

Silent leaders help the virus to spread

Jun 28th 2001 | LAGOS
From The Economist print edition

As the UN meets to discuss AIDS (see article), the epidemic gets much less attention than it should from Africa's leaders. Straight talk is the answer

Get article background

AFP

IN A rundown bus park in central Lagos, a man with a microphone begins a patter of jokes that gathers a small crowd. He pulls one man from the mass and asks him if he has AIDS. No, is the reply. Does your girlfriend? No, again. How do you know? Laughter and an embarrassed admission that the man does not know. Do you have other girlfriends? The man says he can't answer because his girlfriend is nearby. Do you use condoms? No, says the man, he prefers "skin to skin". He is then invited to take off his trousers and show his manhood to the world. The crowd howls. "Alright, I'll have to do it myself," says the man with the microphone. He reaches into a bag, pulls out a dildo and straps it to his waist. When he turns back to face the crowd, the bus park is in uproar.

For the Society for Family Health (SFH), a Nigerian AIDS-education project, this is success. People are listening. The man with the microphone shows a condom, and tells you how cheap they are and how they can save your life. Questions from the crowd reveal how horrifyingly little Nigerians have been told about the virus. Does it really exist? How do you get it? Is there a cure? Many believe it is caught from lavatory seats or spread by witchcraft. Thousands seek cures from bogus "doctors", or evangelical churches.

The latest, probably inaccurate, survey, taken in 1999, said that even then 2.7m of Nigeria's 120m people were infected with HIV. Almost nobody had foreseen the catastrophe. While AIDS was ravaging much of the rest of the continent, it spread more slowly in West Africa, and was diagnosed later. The reason is not clear. Some think it has to do with the HIV strain prevalent in West Africa. Others believe that male circumcision—relatively less common in parts of Africa—slows the virus's spread.

As in many African countries, frank talk of sex and AIDS is taboo in Nigeria. As late as 1997, Fela Kuti, a popular musician and the brother of a former health minister, was telling Nigerians that AIDS did not exist. In August that year Mr Kuti died from an AIDS-related illness. For many Nigerians, that made it real for the first time.

The government admits that AIDS is now widespread, and says the epidemic has reached the explosive stage when it breaks out of high-risk groups such as prostitutes and migrant workers into the population at large. In some areas the infection rate is already 21%. Nigeria may overtake South Africa as the country with the most AIDS cases in the next two years.

But Nigerians are not being warned. In Uganda, President Yoweri Museveni saw that education was the best way of combating the spread of the disease and launched a noisy campaign that broke through religious and cultural taboos to talk openly about sex. An explicit radio programme called "Straight Talk"encouraged women to protect themselves by taking responsibility for their health and their relations with men. As a result, Uganda's rate of HIV infection has fallen.

Being honest

Straight talk is what Nigeria, like much of the rest of Africa, has not got. Though most Nigerians now know that AIDS is connected to sex, public-education campaigns are coy. They talk about the dangers of

sharing needles or razor blades, not about safe sex. All surveys, however, show that HIV is spread in Nigeria by sex. In March a radio advertisement alerting the young to the dangers of unsafe sex, prepared by SFH and government ministries, was taken off the air after the advertising-standards body objected to its explicit language. The straight talking had to be toned down.

Religion also plays a part. Christian and Islamic leaders object to the open discussion of sex. The fact that Nigeria contains something like 250 different ethnic groups creates a minefield of conflicting cultural values and practices. And many Nigerians, like other Africans, fear being corrupted by what they see as loose western morals. As a result, only 80m condoms are expected to be used this year in Nigeria: on average, not much more than two per couple. Most couples do not use them at all.

One Lagos-based radio station, RhythmFM, has begun its own campaign, broadcasting hourly anti-AIDS messages. Private initiatives of this sort show up how little the government is doing. The government's AIDS action plan looks well thought-out—but so far remains only a plan. President Olusegun Obasanjo, elected in 1999, has talked much about doing something about AIDS, but has actually done precious little.

South Africans argue about government support for anti-retroviral drugs for AIDS sufferers.That issue is not yet on the agenda in Nigeria. Even if it were, the state of Nigeria's civil service would hinder any action. Government in Nigeria has for years been moribund. Reviving it will take too long for most AIDS sufferers to notice.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

South Africa

Haunted by a hat

Jun 28th 2001 | JOHANNESBURG
From The Economist print edition

A public scrap shows tensions at the top

SHE “flaunted her disrespect”, boomed the president’s spokesman last week. Winnie Madikizela-Mandela’s “tomfoolery” and “unbecoming” behaviour spoiled a commemoration of the 1976 Soweto uprising on June 16th. She came late, interrupted a speech, drew loud chants of “Winnie, Winnie” from the crowd and flounced on stage to kiss President Thabo Mbeki. He drew back and seemed to knock her baseball cap to the ground. Unhappily for him, television crews filmed it all.

There is no love lost between Mr Mbeki and the ex-wife of his predecessor, Nelson Mandela. But the public clash caused a storm of debate. He mistreated the head of the women’s section of the African National Congress (ANC), say some. What an example to set in a country where violence against women is widespread. His allies retort that Ms Madikizela-Mandela is a troublemaker: she always pulls the same stunt at rallies; she misses meetings; her leaked letters spread harmful rumours that Mr Mbeki is a womaniser.

Most troublingly, she is popular. At the last ANC elections in 1997, she was easily voted on to the national executive committee. She lives in Soweto and goes to funerals that he shuns, such as that for Nkosi Johnson, a famous child AIDS victim who died a month ago. She speaks out on poverty. Township residents will forgive her anything, even her part in the deaths of two young boys in the 1980s. Last week she railed against the government, saying that squatter camps were now “worse than they were when I told them to vote ANC for a better life”.

Mr Mbeki sorely lacks her common touch. He is bookish, remote and seems shy of cameras and crowds. The lives of poor black South Africans will be improved, he says, if the economy grows and the world believes in a stable South Africa. True, but that is hard to sell to hungry people. He is struggling to keep the more populist parts of his ruling coalition in check.

In April the president soured his relations with three popular prominent ANC men no longer in government, Cyril Ramaphosa, Tokyo Sexwale and Mathews Phosa. Claims of a “plot” against him were used to launch a police investigation into their activities. A new test will come in August, when the trade unions are planning a two-day general strike to protest against the privatisation of state utilities, especially electricity. The country’s largest federation of unions, COSATU (which like the Communist Party shares power in the ruling coalition), gave formal notice of the strike last week. It claims nearly 2m members, and says the protest will be vast.

Mr Mbeki hopes to face down the strike and COSATU, although ready to stir up trouble, does not want a serious rift with its ANC partner. But, if the protest really is vast, privatisation risks getting a bad name among ordinary South Africans. This could delay other sell-offs. The Mbeki team has closed ranks against Comrade Winnie, but her popularity and charisma remain strong. That knocked-off baseball cap may yet haunt Mr Mbeki.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Western Sahara

The UN's U-turn

Jun 28th 2001
From The Economist print edition

Has the UN's new plan for Western Sahara dropped self-determination?

DEPENDING on whether you believe in principle or the art of the possible, the United Nations' new proposal for the future of Western Sahara is either a betrayal or a dogged attempt at a settlement. It suggests that for the next four years Western Sahara should be a part of Morocco that will fly the Moroccan flag and operate under the Moroccan constitution, but at the same time it will be "autonomous". After four years there may—but only may—be a referendum to decide whether it stays Moroccan or becomes a separate state.

Morocco invaded this corner of north-west Africa in 1975 when the old colonial power, Spain, was preparing to pull out. The International Court of Justice ruled the Moroccan occupation illegal, and a nasty little war ensued between Morocco and an independence movement, the Polisario Front. They signed a ceasefire in 1991, and agreed to a referendum on the future of the territory, supervised by the UN.

Instead of grinding through an appeals procedure, or declaring Morocco to be in default, the UN now appears to have decided to abandon the whole exercise. The result may be virtually to hand the country over to Morocco.

The new plan, drawn up by James Baker, a former American secretary of state, proposes that the agreed list of voters should elect an executive that will run the country's internal affairs for the next four years. However, this executive will be responsible to an assembly elected by all adults now living in the territory, most of whom are pro-Moroccan. After four years the assembly will appoint a new executive. Morocco will also appoint the judges and be responsible for law and order during the transition.

Polisario has, unsurprisingly, rejected the proposal, but its options are limited. It can hardly go back to war without Algerian backing, which looks unlikely. And retiring for a sulk in the Sahara desert is hardly an eye-catching form of protest.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Israel and Palestine

Powell in the lions' den

Jun 28th 2001 | JERUSALEM
From The Economist print edition

The two sides still far apart

THE resolve of the Bush administration to give up American efforts to mother the Middle East peace process was broken this week. Colin Powell, the secretary of state, flew to the region to meet Yasser Arafat, the Palestinian leader, and Ariel Sharon, the Israeli prime minister, and cajole them to keep an agreement both have accepted but hardly adhered to.

EPA

No olive branches here

Mr Powell says his task is to press ahead with the ceasefire brokered by the CIA chief, George Tenet, earlier this month. In particular, he wants to "join the dots" between Mr Tenet's truce and the other steps to end violence that were recommended in May by a report from a committee headed by George Mitchell, a former senator.

The report proposed a cooling-off period in which the Israeli army would return to positions held before the outbreak of fighting in September, a series of confidence-building measures, including a freeze on Israel's settlement construction in the occupied territories, and a resumption of security co-operation between Israel and the Palestinian Authority (PA). Lastly, it proposed a return to negotiations.

Mr Powell believes that the ceasefire has made enough progress at least to start the cooling-off period and set up "a loose time-frame" for Mr Mitchell's other proposals. Mr Sharon disagrees. In a very public row at their meeting in Washington on June 26th, the Israeli prime minister visibly bridled at Mr Bush's assertion that the ceasefire was "progressing in inches". Mr Sharon insists the Palestinians have simply not observed the truce.

Mr Sharon wants America to back his deadlines for implementing Mr Mitchell's plan. These are a ten-day period in which the Palestinians would end "hostilities, terrorism and incitement" before a cooling-off period of at least six weeks. He then wants three months for confidence-building and would "rewind the clock" whenever Palestinians broke the agreement.

For the Palestinians, both the demands and the timetable are impossible, because they would undermine Mr Mitchell's proposals. They want the cooling-off period to be much shorter and a clear timetable for implementing his other proposals, above all, the freeze on settlements. And where Mr Sharon invokes the mantra of "no talks under fire", the Palestinians invoke their own call, equally embedded in Mr Mitchell's report: "An end to violence cannot be sustained without meaningful political negotiations. It is imperative for our people to see material and tangible progress on the ground as soon as possible," as the PA put it this week.

Since the ceasefire was approved on June 13th, eight Palestinians and six Israelis have been killed in the occupied territories. Palestinian guerrillas have broadly observed the ceasefire within PA-controlled areas but not in the still occupied parts of the West Bank and Gaza.

In response, the Israeli army has maintained blockades in the occupied territories, completely encircling the major Palestinian towns of Nablus, Hebron and Tulkarm. It has also granted freer rein to the settlers to exact their own revenge, setting up outposts near Palestinian villages and burning crops. On June 25th a full-scale battle broke out at Hebron, a portent of what Palestinians—and perhaps Mr Powell—fear may happen if Mr Mitchell's proposals are not implemented soon. But Mr Sharon says "speed will endanger the process" and be a reward for Palestinian terrorism.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Zambia

Brighter days in the copperbelt

Jun 28th 2001 | CHINGOLA
From The Economist print edition

Privatisation has transformed the scene in Zambia's copperbelt

STARING into the Nchanga open-cast copper mine can make you dizzy. It is one giant hole: 500 metres deep and almost five kilometres (three miles) long. But it is not as big as the hole that Zambia's state-run copper industry used to leave in the national accounts. By the late 1990s, the mines, once the motor of the country's economy, were losing millions of dollars each month. This was not simply because of low copper prices: production plummeted from over 700,000 tonnes a year in the 1970s, shortly after nationalisation, to about a third of that in 2000. Mismanagement was largely to blame. But last year the mines were privatised. Recovery began.

The richest pits were sold to Anglo American, the South African (but London-listed) mining giant that originally owned them. Some Zambians raged that this was tantamount to bringing back colonialism. Donors fret that the state copper company was looted in the run-up to privatisation. But since the sale was completed, new investment has sparked a boom in Zambia's copperbelt.

When the men from Anglo returned, they found rusting machinery, lax safety standards and cooling towers that spewed sulphurous fumes over the surrounding countryside. Of the seven big mechanical shovels at Nchanga, only two or three worked. The rest had been cannibalised for spare parts.

As for graft and mismanagement, Tim Wadeson, the head of Konkola Copper Mines, Anglo's partly-owned Zambian subsidiary, tactfully talks of a lack of money leading to a "culture of short-cuts". And as the computers were generations out of date, proper financial controls were difficult.

Anglo expects to return the mines to profitability this year, and to bring environmental and safety standards in line with Zambian law by 2003. Meanwhile, local contractors enjoy the novel experience of actually being paid. A cluster of new restaurants and guest houses has popped up to feed and shelter the new influx of engineers and consultants. Unemployment is still dire, but the sale of the mines has probably dented it. Several thousand mine employees were laid off shortly before privatisation, but thousands have also been hired since by contractors. In addition, countless drivers, waiters, caddies, shop assistants and clerks owe their jobs to the new investment that privatisation has brought to the copperbelt.

Largely because of new investment in the mines, the Zambian economy as a whole is expected to grow by more than 5% this year, a much-needed boost after years of uncertainty.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

E-strategy brief: Enron

A matter of principals

Jun 28th 2001
From The Economist print edition

In this, the last of our seven e-strategy briefs, we look at how Enron's spectacularly successful Internet effort has reinforced, but not transformed, its existing business

Get article background

THE energy business seems an unlikely place to look for a good Internet strategy. Most of the sleepy giants in this venerable industry have failed to come up with any such strategy at all. Yet one of them, Enron, has created what may be the most successful Internet venture of any company in any industry anywhere.

Enron was already the world's biggest energy-trading business when it launched EnronOnline, its Internet-based trading platform, at the end of 1999. Since that launch, EnronOnline has handled commodity trades worth some $650 billion. The daily volume has soared to about 5,000 trades, with a notional value of around $3 billion.

EnronOnline now offers over 1,500 different products (from spot electricity and gas to complex derivative instruments and even hedges against the weather). Online trades now make up nearly two-thirds of the company's trading business. Management consultants and Internet gurus cannot stop singing its praises: Harvard Business School has already put together a glowing case study.

Yet Jeffrey Skilling, chief executive of Enron, does not seem all that impressed. "The Internet is not a disruptive technology," he insists. He dismisses the revolutionary claims for EnronOnline. "We were doing business-to-business trading long before there was such a thing as B2B, only we were using telephones," he claims. "EnronOnline is really just a better telephone."

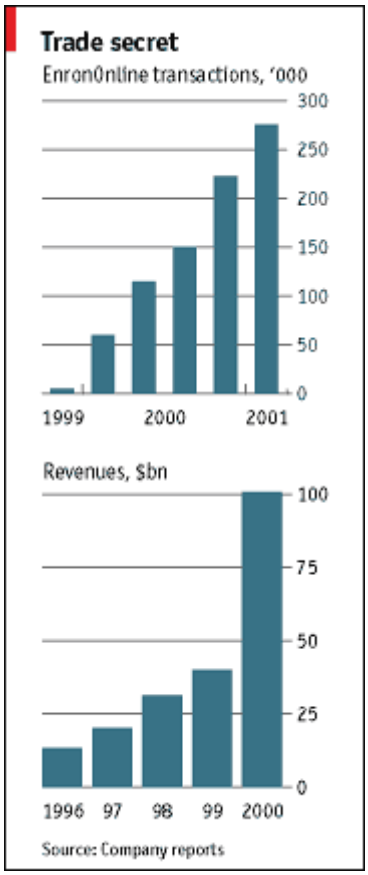
Such scepticism about the Internet is common among bosses of firms in such old-established industries as energy. But coming from Mr Skilling it seems surprising. For one thing, Enron is quite unlike such asset-heavy energy giants as ExxonMobil or Electricité de France. In some ways, indeed, it is no longer an old-fashioned company at all.

It was formed by the merger in the 1980s of a couple of ailing gas-pipeline firms. Kenneth Lay, the firm's founder and now its chairman, is a free-market enthusiast who had sensed a seismic shift in the energy landscape. The government was beginning to deregulate the business, and Mr Lay spotted a one-off chance to profit handsomely by creating innovative instruments for the nascent spot and forward markets in energy products. He pushed regulators to open markets faster, and ensured that Enron was at the forefront of that deregulation.

During Mr Lay's watch, Enron's revenues grew from a mere $7.6 billion in 1986 to a whopping $101 billion last year (see chart). Mr Skilling, his right-hand man for most of that time, has now set the firm's

sights even higher. He has modified the banner that greets visitors at Enron's glittering headquarters in Houston from "The world's leading energy company" to "The world's leading company". So why, then, is he not trumpeting EnronOnline as a revolutionary breakthrough that is transforming his company—and his industry—beyond recognition?

Part of the answer is that he has always been extremely wary of the Internet. As early as 1994, Enron considered buying an online trading exchange, but it was Mr Skilling who rejected the idea. Since then, his managers have been keenly aware that any half-baked dotcom or B2B idea would receive a chilly reception in the executive suite.



Not surprisingly, the bright young things who came up with EnronOnline did not seek Mr Skilling's formal approval until virtually the last moment. Louise Kitchen, a young trader who was spearheading the firm's foray into Europe's liberalising gas and power markets, was an early advocate, emboldened by the success of a modest Internet effort at Enron's office in Scandinavia (which has long had liberalised energy markets).

To get the idea off the ground, Ms Kitchen persuaded dozens of Enron's best commercial, legal and technical people to work on the project. Mr Skilling did not hear the full sales pitch for EnronOnline until just a few weeks before it went live. When he did, however, he gave his full backing to this risky new global initiative, which had been put together in less than a year.

Reskilling

For Mr Skilling turned out not to be a technophobe after all. On the contrary, he claims to have recognised some time ago that information technology (IT) could prove a crucial competitive advantage for Enron, as it expanded ever faster. The problem was that the group's dizzying growth in the 1990s, combined with its highly decentralised structure, had left it with a mish-mash of incompatible technology platforms.

About two years ago, he appointed Michael McConnell, one of Enron's rising stars, as his technology supremo, with a remit to sort out this mess. Mr McConnell, who was head of the pipeline business at the time, says he nearly fell off his chair: "I turned white. I pleaded with Jeff that I am not a technology guy—in fact, I am anti-technology." But Mr Skilling insisted precisely that he wanted a sharp commercial mind, and not the usual technology booster, in charge of the revamp.

So Mr McConnell set up a committee to decide on common technology platforms across the global company. He says that, until that process got going, the IT geeks had never really sat down with the traders or other commercial folk to discuss their investments. He insisted that IT groups be measured, just like any other division, on their returns.

Although it went against the grain of the bottom-up style that pervades Enron's business culture, Mr McConnell issued diktats that all must embrace Microsoft's Windows 2000, that all systems must be Internet-enabled, and so on. This forged a common platform that he claims is producing "a better return on intellectual capital" than would snazzier but incompatible technology. More importantly, it also set the stage for a smooth roll-out of the company's killer application: EnronOnline.

What sold the doubting Mr Skilling on EnronOnline was its ability to overcome two flaws that he says make the B2B model unattractive for the sorts of markets that his firm specialises in. He argues that for any such "open platform" exchange to work, "you need a truly fungible commodity, and you need liquidity".

Unlike, say, treasury bills, he reckons electricity and gas are not perfectly interchangeable commodities: their prices vary wildly by geographical market, for example, and they can fluctuate every few seconds. Moreover, liquidity is a big problem, especially for the electricity market.

The EnronOnline model that Ms Kitchen and her colleagues came up with was not based on an open platform, however. Rather, it is what is called a "principal-intermediated" model in which Enron acts as the principal. In other words, rather than striking deals among themselves willy-nilly through an Enron website, every buyer and seller participating in EnronOnline has to accept Enron as its direct counterparty—ie, as the seller or the buyer.

That change has dealt with the boss's two main objections. Enron itself now provides the market's liquidity, and the firm's good name ensures certainty of contract execution. But not everybody was pleased with the idea.

For one thing, it flew in the face of conventional wisdom. Internet gurus argued that the only trading platforms that customers wanted to use were "neutral" exchanges that allow all buyers and sellers to deal directly with each other. Rivals scoffed that nobody would trust an exchange in which the counterparty to every trade was Enron itself.

Surely, they speculated, such a principal would use the information it gains to manipulate the market to its own advantage? But Enron has had the last laugh: while EnronOnline's fortunes have soared, a consortium of rivals that cobbled together a neutral exchange, the InterContinental Exchange, is bogged down in bureaucratic bickering.

Enron's own traders were not themselves without their doubts. As Christopher Bartlett of Harvard Business School puts it, "Internally, many experienced traders believed that by making pricing transparent, the web-based trading platform would undermine the fundamental economics of Enron's wholesale business, which had become by far the biggest contributor to the company's earnings." Ms Kitchen's response to anyone who complained about EnronOnline's possible impact on margins was: "So do we wait for a competitor to do it?"

The traders were right in a limited sense. EnronOnline has indeed squeezed trading margins. However, this has been more than offset by the gains. Transaction costs, for example, have been dramatically reduced as the entire trading process is now automated.

This has also helped to reduce the time between the placement of an order and its execution (from as much as two hours before the online operation's launch to a split-second today); this greatly reduces the exposure of the firm to price fluctuations that might occur 'twixt the ordered cup and the transacted lip.

The biggest offsetting factor, however, is the dramatic expansion in trading volumes. Last year, after the introduction of EnronOnline, the firm saw a surge of 60% over the previous year in the physical volumes that it traded. Since volumes have grown by only 30% a year in recent years, Mr Skilling believes that the extra growth is directly due to EnronOnline. None of his competitors saw a similar spike in volumes traded.

Hidden costs

All this has cost Enron just $20m or so in back-office upgrades. There are also intangible costs, though, such as the impact on corporate culture and the upheaval in the firm's business model. After all, since the days of the spice trade, information about prices and spreads has always been jealously guarded, as a potential competitive advantage, by any commodity trader. Now, thanks to EnronOnline, Enron is posting that information on the web for all and sundry to see. That must come at a price.

Junior managers are adamant that EnronOnline is turning the whole place upside down. Mr McConnell explains: "Since EnronOnline has reduced our transaction times to less than a second, our guys have to manage their businesses by the second—not just by the day as in the past." To help the firm's aggressive traders to cope, the latest news and prices are beamed to them via television screens in the lifts. The company has even installed connection ports in its gym so that they do not miss a moment of the trading action.

Mr Skilling plays down the cultural impact of EnronOnline, insisting that the Internet is just "a better

distribution channel". It does not transform Enron's business model, he says: rather, it merely reinforces it. But what is that business model today? With each new trade, it has less and less to do with energy, and more and more to do with making markets. One manager says that the firm's goal is "the commoditisation of everything".

Mr Skilling himself describes his vision of the future as one of "dis-integration". He thinks the advance of deregulation, the rise of free markets, and the dramatic decline in the cost of intermediation, all sound the death knell for the traditional integrated firm—be it in energy, telecommunications, or indeed anything else.

And that is why he is not betting Enron's future on the asset-heavy approach of traditional energy firms. Instead, he wants to be a market maker pushing the boundaries of deregulation in any commodity market in the world. He has been shedding some of the asset-intensive (and underperforming) bits of the company in recent years. Thus Enron has sold EOG, its upstream exploration arm; dismantled Azurix, an ill-fated foray into the global water business; and is now getting out of places like India, where its Dabhol power plant has produced far more controversy than electricity.

None of which means that Enron no longer needs any physical assets. On the contrary, a crucial part of the strategy of market-making in stodgy integrated industries involves acquiring enough assets to ensure liquidity and guarantee the fulfilment of contractual obligations. To make its recent forays into such new areas as pulp, liquefied natural gas, crude oil and coal trading, Enron acquired new assets in each new business.

Yet, as these markets mature and gain liquidity, the company intends to shed most of its costly and risky asset base and concentrate on the more lucrative business of trading. And this is where EnronOnline will eventually come into its own.

With the deregulation of natural gas in America, it took the better part of a decade to get past the inflection point beyond which physical assets became relatively unimportant. The process was a bit faster with electricity deregulation, and it is speeding up with wholesale power trading in Europe. "Every deregulating market follows this disintegration curve," explains Mr Skilling. "EnronOnline just speeds up the day that we come to the inflection point."

This is the final article in the series. A reprint of the set of seven e-strategy briefs will be available from The Economist Shop from July 21st 2001 at a price of £6.00 in Britain and £7.50 overseas, including postage and packing. Discounts are available for bulk purchases.

Please send your order, with pre-payment by cheque, to:

The Economist Shop, 15 Regent Street, London SW1Y 4LR, UK

For credit-card orders,

phone +44 (0) 20 7839 1937

Or fax on +44 (0) 20 7839 1921

Or e-mail shop@economist.com

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Steel industry

A tricky business

Jun 28th 2001 | PARIS, SEOUL AND WASHINGTON, DC
From The Economist print edition

Reuters

The Bush administration is moving to protect America's battered steel makers. That is bad news for their equally battered rivals in Europe and Asia

Get article background

GIVEN President George Bush's oft-stated free-trade credentials, it is ironic that his first big action on the trade front should be grossly protectionist. On June 22nd, at Mr Bush's direction, Bob Zoellick, America's trade representative, invoked section 201 of the 1974 trade act and asked the independent International Trade Commission to examine whether the American steel industry has suffered serious injury from imports. Given the intensity of lobbying by steel companies and trade unions, it will be no surprise if America imposes quotas and higher tariffs on steel imports when the investigation ends in a few months' time.

There is no doubt that America's steel industry is in trouble. Prices are at their lowest for 20 years and they have fallen sharply this year. That has put more strain on companies that were already struggling. US Steel, the longtime industry leader, will lose money this year, while Bethlehem Steel, for decades America's number two, will record a loss for the third year running. Even Nucor, a mini-mill upstart founded in the 1960s and by some measures now America's biggest producer, is fighting to remain profitable.

The industry's woes have produced alarming statistics. No fewer than 18 American steel firms have filed for bankruptcy in the past three-and-a-half years, including LTV, the third-biggest. Northwestern Steel recently shut its furnaces and ceased business. Further failures are expected this year. Job losses in the industry, which have averaged 5,000 a year since 1990, are accelerating.

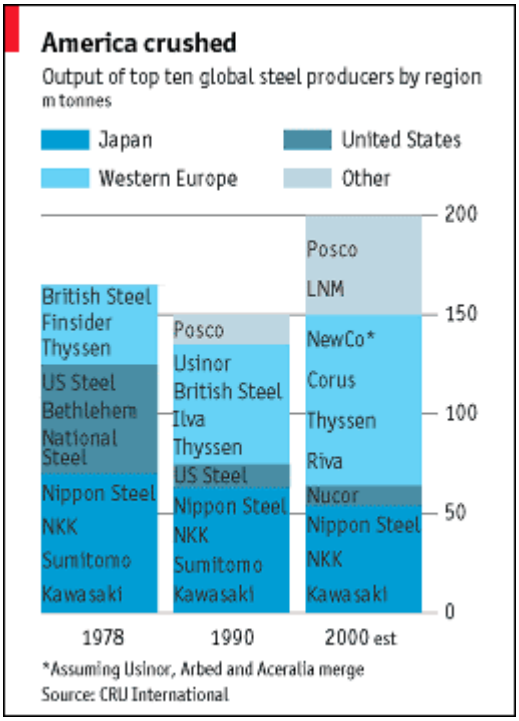
The Bush administration maintains that imports are largely to blame. Mr Zoellick cited a "50-year legacy of foreign government intervention in the market and direct financial support of their steel industries" as a principal cause of the problem. As well as seeking to curb imports, Mr Bush has called for multilateral talks with other steel-producing countries to eliminate excess capacity and reduce subsidies. Some members of his team would like a global pact similar to the one introduced for aluminium in 1994. Observers say the creation of such a cartel is unlikely, given the large number of producing countries that would have to agree.

As with any international trade row, the underlying picture is more complex than the parties' rhetoric suggests. It is true that imports into America have increased sharply in recent years and now account for around 30% of the market. In the first half of the 1990s they averaged 21m metric tonnes a year, before jumping to 41.5m tonnes in 1998. In 1999, some 35.7m tonnes entered America, and last year 38m came in, mostly from its NAFTA trading partners and from Europe.

But imports have recently been falling almost as fast as they once increased. According to Peter Dupont, an analyst with Commerzbank, imports from January to April were down by 30% from the previous year. Assuming that domestic demand does not collapse completely as the economy slows, Mr Dupont reckons America needs to import at least 20m tonnes to offset constraints in its own production capacity. That could be close to the level that might be acceptable to Mr Bush.

The steel industry's problems are neither new nor confined to America, however. During the 1990s, productivity in Europe, America and Japan rose by 50% to an output of almost 600 tonnes per man-year. Over the same period, even though world GDP rose by nearly 40%, overall production scarcely increased. Big job losses, and accompanying political and trade tensions, were inevitable. Companies also had to cope with persistent over-capacity. For 30 years capacity has exceeded production by around 20%. That has caused long-term downward pressure on prices and guaranteed that the industry always plunges into operating losses whenever economic conditions deteriorate.

If the laws of economics were allowed to work, weak producers would long ago have disappeared, and the reduction in capacity would leave the survivors in better shape. But steel is not a normal market. Gary Hufbauer and Ben Goodrich of the Institute for International Economics, a Washington think-tank, point out in a forthcoming policy brief that big market distortions have made the shedding of excess capacity a painfully slow affair. America is as bad as anywhere in allowing subsidies and guarantees to distort the market.



In Europe, governments responded to market pressures by privatising their steel companies, mostly in the early 1990s. But this introduced a further form of subsidy because the companies, many of which had been bankrolled by taxpayers for decades, were given clean balance sheets in order to make them financially viable. The American steel industry points to this as an example of unfair market conditions, while the Europeans argue that American firms have been feeble at restructuring their operations to become more efficient.

Neither side is on completely solid ground. Even with sound balance sheets, Europe's steel companies have struggled and have used mergers to survive. Corus, an Anglo-Dutch combination, is making horrible losses and closing plants all over the place. The European Commission has just begun to examine the effects of a proposed *euro*30 billion ($25.5 billion) merger between Usinor of France, Arbed of Luxembourg and Spain's Aceralia. That deal, if permitted, will create the world's biggest steel concern, able to produce 45m tonnes annually. But others may yet intervene. Riva, a private Italian steel group, recently prepared a spoiling bid for Usinor, only to balk at the last moment on price grounds.

Despite the strength of the dollar, some American companies have not only restructured but are capable of competing with any global rival. AK Steel, for example, achieves world-class performance. A few huge conventional plants, such as those belonging to US Steel at Gary, Indiana and Bethlehem Steel at Burns Harbour, Indiana, are also efficient enough to be competitive even in dreadful market conditions. But there are also many old and creaking plants. John Johnson of CRU International, a consultancy, reckons the production costs of American mills are among the highest in the world, topped only by those in Japan. Further, expensive pension liabilities have played a big role in hindering mergers, and Chapter 11 bankruptcy proceedings often keep alive failing firms that would otherwise fold.

If America introduces new quotas and tariffs, as seems likely, European companies will suffer direct and indirect pain. They currently export 5m tonnes of finished steel annually to America and stand to lose a lucrative portion of that—although no single producer is heavily exposed. Less directly, firms that are barred from the American market will look elsewhere to sell their steel, putting further pressure on prices.

The prospect of increased American protectionism is slightly less worrying for Asian producers. The biggest and strongest companies, Posco in South Korea and China Steel in Taiwan, rely on America to take a modest 4% and 2% of output respectively. Anti-dumping measures already in force make America an unattractive market, a trend further reinforced by low prices. Young Woo Chang, an analyst with Goldman Sachs in Seoul, reckons that the mere $40 per tonne gap between Asian and American

production costs makes exports to America uneconomic in most cases, once transport costs are factored in. This helps explain why, in Japan, South Korea and Taiwan, roughly 70% of production goes to domestic markets, with much of the rest being exported to Asian neighbours—in particular China, whose hunger for steel imports is the saviour of many an Asian producer.

Political metal

Given the longstanding and global nature of the steel industry's problems, why is Mr Bush acting now? Look no further than politics. America's steel lobby wields clout in Washington that is disproportionate for an industry employing only 200,000 people. It is adept at using America's trade armoury: some 46% of existing anti-dumping orders are on steel products, even though steel accounts for only 2% of imports. The steel firms also have powerful friends in Congress, who could derail Mr Bush's broader free-trade agenda or initiate even more draconian protectionist measures on steel.

Mr Bush also needs to shore up unexpected political gains. He narrowly won the staunchly Democratic state of West Virginia in the 2000 election, in large part because he promised to help steel workers more than Al Gore or Bill Clinton, who refused to resort to section 201.

More important, Mr Bush needed to buy off the steel lobby so as to further his goal of winning trade-promotion authority from Congress. This power, which would enable the administration to negotiate trade pacts such as a new WTO round without Congress amending their details, is understandably controversial. Without a large protectionist bone to chew on, the steel lobby would have sunk it. Unfortunately, there is no guarantee that even section 201 will satisfy the industry's demands for help. Quotas or not, the woes of the world's steel makers will continue.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Central European oil companies

All for one, and one for all?

Jun 28th 2001 | WARSAW
From The Economist print edition

Joining forces, perhaps, to fight off the oil majors

THERE is a touch of "The Three Musketeers" about the looming consolidation of Central Europe's oil industry. Thrust together by a common desire to repel unfriendly advances, yet consumed by national pride, the three main regional companies—Poland's PKN Orlen, Hungary's MOL and Austria's OMV (the main Czech oil firm, Unipetrol, is far smaller)—see their future as one. But they are loth to admit it. Integration will happen, they say; only expect plenty of jostling first.

In recent weeks, the pushiness has given way to bonhomie. On June 19th the three held a meeting in London to extol the benefits of closer co-operation. Soon afterwards MOL, which had kicked off the consolidation drive last year by outbidding OMV for a 36% stake in Slovakia's main oil company, Slovnaft, declared its interest in buying the 18% stake in PKN that the Polish government plans to sell later this year. OMV did the same last month, having already snapped up 10% of MOL.

The logic of all three now banding together is clear. The region is awash with national oil companies with dominant positions in their home markets but scant presence elsewhere. Linking up would make them less vulnerable to local swings in demand and help them to cut costs. On the retail front, the encroachment of European oil majors such as Royal Dutch/Shell, which is the largest foreign competitor in the region, and BP strengthens the case for a tie-up. A defensive alliance could also improve the terms of any takeover by a western company.

Russian growls are also spurring consolidation. Flush with cash from last year's spike in oil prices, and eager to expand, Russian energy groups such as Lukoil have already sniffed around Poland's second-biggest refiner, Gdanska. A recent report by Deutsche Bank concluded that Russian companies may soon become the most aggressive investors in the region.

All the more reason to bulk up and reap economies of scale. Unfortunately, politics is getting in the way. Central Europe's oil groups have been restructured at great cost in recent years, especially PKN, whose $2 billion upgrade has transformed its Plock refinery into one of the top installations in Europe. As a result, they are seen as highly strategic assets by their governments, which hold blocking stakes.

Regulatory snags abound, too. Take the case of MOL. Price caps have eaten into profits from refining, saddling the firm with huge debts and weakening its hand in expansion talks. Although MOL has prepared its gas division for sale, the government, which has just over 25% of the parent firm, has yet to agree.

Bad corporate governance has also held up consolidation. Although the shares of most of the region's energy companies are listed, shareholder voting limits (5% per shareholder at MOL and 10% at PKN) and politicised managements have derailed attempts to merge. Andrzej Modrzejewski, PKN's boss, has distanced himself from the ministers who gave him his job, but he is still seen as a political appointee. That worries would-be investors.

All eyes are now on PKN. If the government sells a chunk to MOL or OMV, regional consolidation will be in full swing. But a regional merger is far from certain. The Polish privatisation minister faces a no-confidence vote, the ex-communists are likely to win September's parliamentary elections, and there is agreement in Warsaw that PKN, the biggest of the regional oil groups, should be buying rivals, not selling. For all the talk of teaming up, the muskets have yet to be laid down.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Corporate security in Russia

More brains, less brawn

Jun 28th 2001 | MOSCOW
From The Economist print edition

Why pay bandits when you can pay bureaucrats instead?

IT USED to be western companies' biggest headache in Russia. Keeping hoodlums at bay meant lurking in discreet offices, behind heavy steel doors, guarded by beefy armed men. Nowadays, security is less intrusive, less costly—and less useful. For the real threat is no longer from bandits, but from bureaucrats. Dealing with them requires lawyers, accountants and fixers, not guns and muscles.

Vladimir Velengurin

An inspector calls

The gangsters have not gone away, of course. They have simply moved into other lines of business. Extorting money from rich firms was never going to be a long-term earner. Some criminals have morphed into legitimate security firms, others focus on private debt collection (bring your own blowtorch).

Western companies still need safeguarding against petty crime, drunks and so on. But a single guard is usually enough. Many office landlords now provide this as part of the rent. Even if they do not, guards come cheaper now: the hourly cost of a man in uniform has fallen by half, to $4 or less.

One reason for the change is that the state has recovered a lot of the clout that it lost in the early 1990s. That is good, because life has become harder for the stupider kind of gangster. But it is also bad, because the state is itself now able to extort money from businesses. A typical scam starts with a visit from the fire inspector. Your office fire alarms are not quite right: unless you install new ones—from a firm that just happens to be both expensive and closely related to the fire service—your office will be closed.

The answer is to have close ties to the local authorities. Upmarket western security firms now spend a lot of time helping foreign clients sniff out the lie of the land—or, in industry jargon, "stakeholder mapping". According to Peter Hopkins of the Moscow office of Drum, a British security firm, the key is understanding "who's going to win, who's going to lose, who can be brought into the deal? Is it the mayor who is up for re-election and wants to be loved, or is it better to have the deputy governor on your side?" What this means in practice can vary. In the best case it may involve something as innocent as a photocall with the right local boss at a factory opening. Or it may mean sourcing business to a well-connected local firm.

The new conditions are changing the shape of the security industry. Life is less profitable. Simple security is a commodity. Sophisticated stuff, such as checking out business partners' honesty, requires real skills that many Moscow security firms lack—especially the one-man bands set up by ex-spies. One thing that has yet to change, however, is big Russian companies' bloated in-house security outfits, which specialise in collecting compromising material on their bosses' business rivals. Tut tut.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Face value

Cleaning up the mess

Jun 28th 2001
From The Economist print edition

Amid heaps of bad publicity, Maurice Myers is quietly turning round America's largest garbage company

IT WAS a moment that brought thousands of garbage men to their feet. On April 30th Maurice Myers, a 60-year-old executive, had spent several panicked seconds in a Las Vegas parking lot, trying to work out how to make a rubbish truck move forward. Then, unable to change gear but with the transmission firmly locked into first, he guided the vast green vehicle on to the stage of a hotel auditorium. There he greeted a previously demoralised group of employees from Waste Management, a company that only two years ago seemed about to implode.

Corporate recovery stories come in various guises. One popular model is the slash-and-burn tactics of the now dethroned Al "Chainsaw" Dunlap: fire people, cut costs, boost profits and sell the remains. Another is more cerebral. Find a troubled company with potential, and try to save it from afar. George Soros was among many investors who took this approach with Waste Management, although he only barely escaped with his shirt. And then there is the style of Mr Myers, who became Waste Management's chief executive in November 1999: it could best be described as relentlessly hands-on.

Mr Myers began his career in what was once considered the crucible of operational management, the financial training programme of a large car company, in his case Ford. Showing an entrepreneurial spark, he then headed a small Hawaiian airline, Aloha. Between 1994 and 1999 he played a crucial role in turning round first another airline that was distressed, America West, and then a venerable trucking firm, Yellow Corporation, that was drowning in the seas of deregulation.

Even so, investors were hardly reassured when he took over at Waste Management. The company's share price, which had already dropped from $60 to $17, fell as low as $13. Regulators were immersed in the investigations that resulted in the recently announced fraud settlement with Waste Management's auditor, Andersen (né Arthur Andersen), over the company's misstatement of profits in the mid-1990s. Another case was settled last June covering the months just before Mr Myers's arrival, when financial controls had fallen apart.

You might think the business of processing waste was immune to failure. Demand is consistent, technological change is hardly a threat and the entire industry has consolidated into an oligopoly. In retrospect, however, it was precisely the creation of this oligopoly that led to a disaster. Waste Management and USA Waste Services had between them bought up 1,250 waste outfits in America, and even more in 20 other countries, before they merged with each other in 1998. Still unsated, the new entity (which took the Waste Management name) acquired 250 more companies in 1999—an average of one every weekday.

Integration of all these takeovers was horrendous. When Mr Myers arrived, there were 1,120 Andersen consultants trying to hack their way through the company's accounts. Billing was a mess, as was the payroll. Of the firm's 57,000 employees, 10,000 were receiving incorrect pay slips. Predictably, morale was awful.

Before signing up with the firm, Mr Myers spent a day interviewing employees. He then spent his first few weeks doing exactly the same thing. There is not a company in the world, he says, whose problems are not known by the people who work for it. During his first four months, his greatest efforts were spent rallying his disgusted employees, and attempting to create order. Neither goal was easy. To minimise further instability, Andersen was retained as the company's auditor, notwithstanding its past sins. Until

the final days before the March 2000 deadline for 1999 results, Mr Myers was unsure whether the company could produce an accurate financial statement.

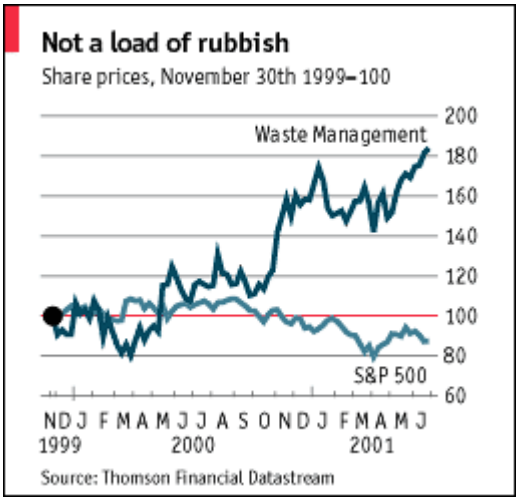
The first investments under Mr Myers were in accounting and information-management systems. “If you cannot measure it, you cannot manage it,” he maintains. By the end of 2000, the crisis began to ease. All the Andersen consultants were gone. Pay cheques were being processed correctly. The time required to collect bills had fallen from 72 days to just under 50.

Most of Waste Management’s international operations have been sold; the rest soon will be. The garbage business, says Mr Myers, is primarily a local business. Where some genuine synergy exists is in squeezing out savings. Waste Management spends $4 billion on goods and services. In the first half of this year it has saved $25m in truck costs alone, by reducing the number of models it uses and bargaining directly with the manufacturers.

A line in T-shirts, too

Cutting costs, though, requires co-operation from people who are used to working independently. The biggest risk Mr Myers faces is rebellion. Yet the signs are that he can avoid it. After his appearance on the Las Vegas stage, sales of company-branded toys and clothing doubled. Profits for the first quarter of this year were up to $124m, from $55m last year. Waste Management’s share price has almost doubled since Mr Myers took over, a rare success in a bear market (see chart). Mr Myers says 80% of the company’s employees back him, with 10% on the fence and 10% unlikely ever to come around. Successful leadership is about capturing a critical mass, rather than unanimity.

Mr Myers says Waste Management will be his last turnround, as “I’m too tired to do it again”. Weekends are spent not relaxing but recruiting new employees. To bring in 14 executives, Mr Myers interviewed 140 candidates. And there is plenty to keep him awake at night: in a weakened company, even small mistakes can be terminal. He says careful thought is already being given to his own succession. By the time genuine proof emerges that Mr Myers has put Waste Management back on its feet, he may well be gone.



Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Tesco and Safeway online

Surfing USA

Jun 28th 2001 | NEW YORK
From The Economist print edition

Showing the Americans how to make online shopping pay

AMERICA has all too often turned into a graveyard for foreign retailers. But this week a British supermarket chain sped across the Atlantic to teach the Yanks a trick or two. On June 25th Tesco, Britain's biggest grocer, announced a deal with Safeway, California's biggest food retailer, to bring its successful Internet shopping service to the United States. Tesco is injecting both its technology and $22m into GroceryWorks, a loss-making online retailer that is majority-owned by Safeway, in return for a 35% stake. GroceryWorks will close its warehouse-based distribution network and replace it with Tesco's so-called "store-picking" system, under which orders placed online are plucked from the shelves of existing stores.

It is a sweet irony that online shopping techniques developed in provincial Britain are being exported to the very birthplace of e-commerce. And it is further proof, if it were needed, of the advantages of bricks-and-mortar retailers over their pure-play online rivals. Much-hyped start-ups such as Streamline, Peapod and Webvan, the best-capitalised of the lot, spent hundreds of millions of dollars on order-fulfillment systems, complete with dedicated warehouses, in the belief that 20% or more of all grocery shopping would rapidly migrate to the Internet. But the switch has yet to happen.

For most online grocers it is now too late. Streamline has gone bust, Peapod has been taken over by Ahold, a Dutch retailer, and Webvan is struggling not to be delisted from the Nasdaq stockmarket. Even GroceryWorks has yet to make any money; Safeway has been forced to write off $30m of its $45m investment as part of its latest refinancing. Meanwhile Tesco, after spending around £40m ($56m) on getting its store-picking system right, has built up a profitable online food business with a turnover of £300m a year, making it the world's biggest Internet grocer.

With hindsight, the superiority of Tesco's model seems obvious. As Andrew Higginson, Tesco's finance director, says: "Think of the store as a warehouse. It is close to where people live, it is simple to pick from because the layout is designed for customers to navigate, infrastructure is there and it is already part of a supply chain." In Tesco's case, specially employed pickers trawl around the aisles with computerised systems that can deal with six shopping lists at once. The items are bundled into a fleet of vans and packed on arrival at the doorstep. Although there is a risk of crowding out shoppers, Mr Higginson believes that the stores can comfortably handle £1.5 billion a year in online sales before Tesco needs to build its own dedicated warehouses.

Besides this solid economic argument, however, Tesco's approach also has some cunning accounting in its favour. Like its dotcom rivals, it has to charge direct expenses, such as vans and pickers, against its online revenues. But the pure plays also have to shoulder the running costs and depreciation charges of their warehouses, whereas the cost of Tesco's stores, including depreciation and lighting, is booked against its offline sales. Add the fact that Tesco charges a £5 fee per delivery, and it is no surprise that it has rapidly been able to show an online profit.

If Tesco can teach its new partner these skills and tricks, its 35% stake in GroceryWorks could turn out to be a goldmine, given America's avid Internet usage and Safeway's 1,700-strong network of stores, more than twice as big as its own. With Tesco in an expansionary mood, this week's deal might even prove to be the prelude to a merger.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Iran's car-making ambitions

Hoping for a revolution

Jun 28th 2001 | TEHRAN
From The Economist print edition

Can Iran turn itself into a regional force in car manufacturing?

IT WAS Koran readings and cakes rather than champagne and canapés at the launch of Iran's long-awaited national car, the X7, at the Tehran car fair this week. Iran has quite a large motor industry. Its main local producer, Iran Khodro, which is 45% state-owned, will turn out some 300,000 vehicles this year; another 150,000 are made by several small joint ventures between foreign car firms and local businesses. Iran Khodro is one of the world's top 20 car makers, with an output twice the size of Malaysia's national car company, Proton, and a home market two-thirds as big as China's. The car industry accounts for one-fifth of Iran's manufacturing. But it is stuck in a time warp behind protectionist barriers, with little foreign investment to drag it into the present.

For as long as Iranians can remember, motoring has been synonymous with the Paykan, the style-free jalopy that has been polluting their cities ever since Iran National (as Iran Khodro was then called) got a licence from a British car maker, Hillman, in the 1960s. Iranians still part with almost $7,000 (several years' average wage) for these clunkers. They have other choices: there is the Peugeot RD, which marries the body of a recent model licensed from the French car maker (and built on assembly lines shipped from France) to the engine of, you guessed it, a Paykan. Wags say the RD stands for real disaster.

This week's shining new hope has been developed with British consultants and uses a modern Peugeot engine. It has been described as a cross between a bulbous Audi and an Opel Vectra. Peugeot also helps Iran Khodro by licensing it to produce its 206 model for the local market. Iran Khodro, in turn, supplies components for the French firm. Another local producer, Saipa, plans to start making another French model, the Citroën Xantia, for nearby export markets. And any day now, an Iranian company is expected to sign a deal with Rover, a struggling British car manufacturer, to buy and ship to Iran the production line once used to make the Rover 100.

Iran has invested much of its oil revenues in building up the production of cars and car parts, sheltered behind a complete ban on imports. But if the country wants to join the World Trade Organisation, and thus rejoin the international economy that it left after the 1979 revolution, government ministers know that they will have to open up to imports and foreign investment. Iran Khodro leads a powerful lobby that is determined to keep the import ban on cars, although most observers reckon the market will start opening up within three years.

Iran Khodro aspires to export vehicles to some of the countries that it borders, such as Turkmenistan, Armenia and Azerbaijan. It also hopes to sell in Middle Eastern and North African markets, which tend to be overlooked by the big international car makers. Sharing a religion and a relative isolation from the West could make it easier for the Iranians to do business in such markets—once their products come up to scratch.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Campari

A lot of bottle

Jun 28th 2001 | MILAN
From The Economist print edition

The Italian icon wants to grow out of its niche

BEING first may merit a mention in record books, but keeping ahead is what counts in business. Campari, a drinks firm whose shares will be floated on the Milan bourse on July 6th, claims to have produced the world's first ready-to-drink alcoholic aperitif in a single serving, CampariSoda, in 1932. The bitter red drink is still popular, especially in Europe. But this, it seems, is not enough. Campari, whose sales of around $400m last year place it in the second tier of the global booze industry, is trying to narrow the gap that separates it from giants such as Diageo and Allied Domecq.

Six years ago, Campari embarked on an acquisition spree to break free from reliance on a mere handful of products. Its first move was the purchase of a soft-drinks portfolio that included a non-alcoholic aperitif, Crodino. Spirits and other soft drinks followed. At the end of 1999, Campari bought the Cinzano brand of wines and vermouths from Diageo's United Distillers and Vintners (UDV) for *euro*106.5m ($107m). Earlier this year, it added UDV's Brazilian and Uruguayan spirits and wines portfolio for *euro*113m. These acquisitions have helped Campari to boost its sales by about one-third over the past three years. They have also reduced the importance of Italy as the firm's biggest market, from 66% of sales in 1998 to 57% last year.

The newly acquired brands have, however, brought challenges of their own. Revitalising Cinzano, which sells only one-fifth of the volume of Martini, the world leader in vermouths, will take both money and management time. Moreover, Campari's acquisition campaign is not over. Future purchases may involve far bigger costs—especially if Campari ends up in bidding wars with deeper-pocketed rivals. But this, the firm believes, is the time to buy, not least because big drinks groups are looking to rationalise their portfolios by selling their long "tails" of smaller brands to concentrate on 10-20 big ones.

Campari might itself have already been swallowed, were it not for its typically Italian ownership structure. Even after next week's flotation, in which 49% of the shares are being offered, the firm will remain under the control of its majority shareholder, the Garavoglia family. While Campari tries to shape up, to match global rivals, its governance will continue to be a very Italian affair.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Software in Japan

The land that time forgot

Jun 28th 2001 | TOKYO
From The Economist print edition

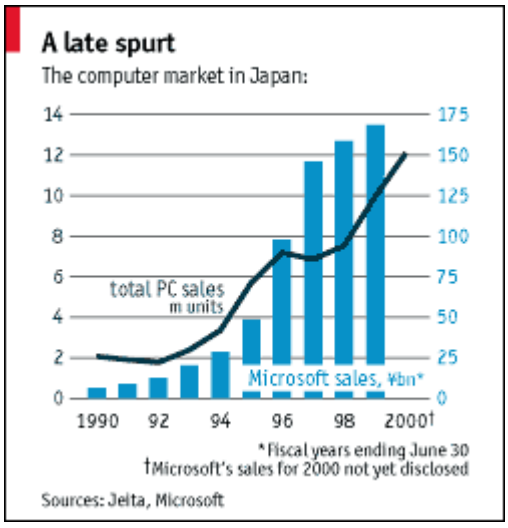
Computer hardware in Japan is emerging from the dark ages. Will software follow?

IMAGINE a world without Microsoft. The Windows operating system would vanish, magically, from the desktop. Computer programmers would be rid of Bill Gates and his monster. Diversity and competition would flourish, bringing joy to all. In fact, there is no need to imagine it: this more or less describes Japan—or at least the first bit does. Microsoft has struggled in Japan, especially in the back office, where clunky computers process transactions. Yet Mr Gates's absence from the world of business computing has not brought much joy. Japanese software is mostly proprietary and out of date. The poor people who write it, meanwhile, have little chance of making a fortune.

It is this unpromising state of affairs that Tokyo's stockbrokers have turned into a sales pitch. Big Japanese companies, they say, are at last ditching their old mainframe computers and buying sleek modern client-servers. That, claim the stockbrokers, will create some big opportunities for software firms, which have played second fiddle to the three big computer-hardware makers, NEC, Fujitsu and Hitachi. Expectations are running high. Microsoft is worth about 2 1/2 times the market value of Japan's entire software industry, reckons Ben Wedmore of HSBC. But the American group's earnings are ten times the size.

Some of the brokers' arguments are undeniably correct. After years of stagnation, sales of PCs are growing quickly (see chart). Businesses are buying them because they need to embrace Internet technology. The sales of Net One Systems, which designs and builds web-friendly computer networks for Japanese firms, are growing by more than 60% a year.

It is the mainframe computer that has turned software companies into second-class citizens in Japan. Because mainframes are sold bundled with software, the really important transaction is the sale of the hardware. After that, customers find themselves locked into years of expensive software purchases, tailor-made for each customer by the hardware maker or its associates. The model is America in the 1970s, when IBM and its mainframes ruled the market. Back then, it made sense for Japan to copy this model. But trade protection, lax antitrust rules and a friendly bureaucracy have preserved Japan's IBM clones long after their usefulness has come to an end.



PCs opened up the American software market to outside companies and turned the hardware into a commodity. If the same now happens in Japan, NEC, Fujitsu and Hitachi will be supplanted by their affiliated software houses—NEC Soft, Fujitsu Support & Service and Hitachi Software Engineering (all three of which have plenty of experience of building applications that run on Windows)—and independent software firms will flourish.

If Japan's established software firms are to thrive, they will first have to rid themselves of some bad old habits. Oddly, the industry's structure closely resembles 1930s-era mass manufacturing. Beneath the three big computer makers lie several carefully ordered layers of subcontractors. At the top, the computer makers control everything, managing customer relationships and farming out orders to their software subsidiaries in the second layer. The software houses then chop up orders into bite-sized pieces and feed them to thousands of subcontractors. Each class of software firm knows its place and charges

appropriately.

Unless the software houses alter their prices, this is going to be hard to change. Compared with foreign firms, Japanese software houses charge very little. The software subsidiaries of the big computer makers, for instance, charge about $400 a day for a programmer; experienced staff at IBM or the big global consultancies cost more than ten times this amount.

That leaves the Japanese houses with no money for marketing or hiring the sort of experienced staff who might persuade their clients to pay more. It also leaves them undercapitalised. This is made worse by an odd pricing system, under which firms charge a fixed amount, instead of billing their customers by the hour. As a result, software houses bear all the risk if, as is usual, a project takes longer than planned. Profits in this unhappy world depend almost entirely on how hard you squeeze your subcontractors.

Newer software houses come with a different set of problems, mostly related to the hurried way in which they were brought to the stockmarket—often at eye-popping prices. Some, like Rakuten, have lots of money but no clear strategy. Others, such as the stable of software firms under Softbank, an Internet conglomerate, have strategies but no intellectual property; they hope simply to import American business models and brands. That, says Mahendra Negi, chief financial officer of Trend Micro, a Tokyo-based computer-virus company, is bound to be a low-margin business, as all it really involves is translation from English into Japanese.

Nor is it certain that the new entrants will ever be able to wrest away the big three hardware makers' customers. For all its success, for instance, Oracle Japan sells its databases through other Japanese software houses, which continue to charge for their services (now packaged with an Oracle database) on a fixed-price basis. Oracle itself has no contact with its ultimate customers. In Japan, moreover, the Internet is still dominated by the old industry monoliths. Besides NTT, the state telephone company, Japan's biggest Internet service providers are NEC, Fujitsu and Hitachi.

The risk is not just to all those investors who have bought the stockbrokers' story. Mainframe computers and the weird software industry that they support have left corporate Japan at a huge disadvantage in IT. Companies are tied to particular computer manufacturers and must pay for bad tailor-made software that can often be bought for a small fraction of the price off the shelf. Japan's hardware revolution offers a chance to change all this. First, though, the Japanese will have to get the software right, too.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Intellectual property in China

Have patent, will travel

Jun 28th 2001 | SHENZHEN
From The Economist print edition

A new generation of Chinese companies wants to play by the rules

IN CENTRAL Shenzhen, the futuristic boomtown adjacent to Hong Kong, a savvy shopper can haggle a "Prada" handbag down to HK$80 ($10.25), a tiny fraction of what the authentic version costs in Hong Kong. This sums up the state of China's intellectual-property laws. But across town, where many of China's private-sector high-tech companies are based, a different future is germinating.

Literally so in the case of Kexing, China's largest biotech company. Kexing makes and sells 60% of the drugs used in China to treat hepatitis B. That, however, is not what fills Kexing's PhD-studded workforce with pride. Rather, it is the plans for a spaceship-like structure nearby that will house a state-of-the-art R&D centre. From here, Kexing intends to launch a string of new patents on to the international market. Within eight years, Kexing plans to be one of the world's top ten biotech groups.

Such global ambitions among Chinese entrepreneurs are novel. Foreign lawyers have long despaired at the apparent failure of outside pressure to get the Chinese to combat piracy of all sorts. But they are becoming increasingly optimistic that a new breed of Chinese firms may succeed where international law has failed.

Kexing exemplifies this evolution. In fact, it has always played by the rules. Under an agreement between China and America, no patents registered in America before 1986—and only some registered between then and 1993—are protected within China. This has allowed Kexing to make and sell drugs inside China that are the intellectual property of firms elsewhere. The international rights to its range of hepatitis drugs, for instance, are held by such drug giants as Schering-Plough and Roche.

This has suited not only Kexing. Some 20m Chinese are suffering from full-blown hepatitis. Only 100,000 can afford treatment. If China enforced international patents, virtually none could. This explains why Kexing, whose Sinogen treatment costs a fifth of the price of the western version, has captured much of the market. The company expects to make profits of about $10m this year and $20m next year.

These cashflows will help to finance Kexing's quest for its own patents. Companies like it are using China's current patent regime as a launching-pad. Once established, they say, they will push China into integrating its intellectual-property regime with international standards.

This prospect naturally excites international investors. Stephen Roach, the chief economist of Morgan Stanley, an American investment bank, recently took 15 fund managers on a tour of China. Kexing was a stop on the itinerary. "Don't kid yourself," Mr Roach said afterwards. "China knows it must play by the rules to succeed."

This optimism is not based solely on high-tech stars such as Kexing. Haier in white goods, Legend in computers and Konka in television sets are all examples of Chinese firms with strategies based on their own brands or other intellectual property. "Their biggest worry is not foreign rivals but local rip-offs," says Zili Shao, who runs the Chinese operations of Linklaters, a British law firm. And once they, rather than foreigners, start lobbying Communist Party chiefs to enforce the rules, the cadres might just do it.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

China's capital markets

Fools in need of institutions

Jun 28th 2001 | HONG KONG
From The Economist print edition

The next step in China's stockmarket reforms is to bring in investors who know what they are doing

Reuters

THOSE Chinese who think of themselves as street-smart tell a joke about three fools. The first is the boss who plays around with his secretary and ends up her husband. The second is the investor who plays the property market and ends up a home owner. And the third is the punter who plays the stockmarket and finds himself a shareholder. This sums up the culture of China's fledgling capital markets. "Trading, not ownership," is the approach of China's investors, says Anthony Neoh, a former head of Hong Kong's Securities and Futures Commission who is now the chief outside adviser to China's regulatory body. "That's what we need to change."

This marks a shift in China's capital-market reforms. So far, Beijing has focused almost entirely on fixing the "supply side" of the securities market. This has included listing more, and better, companies, and forcing them to adopt better standards of corporate governance and disclosure. Such efforts have a long way to go.

However, the government now realises that it also needs to work on the "demand side". At present, China's stockmarket, Asia's second-largest by capitalisation, consists of 60m mainly clueless retail investors, driven to trade almost entirely on rumour. To switch from gambling to proper investing, the government has decided to open up the market to institutions: mutual funds, insurers and pension funds.

These have three main advantages over retail investors. First, they can take a long-term view, since they are matching assets to liabilities that will not fall due for decades. Second, they invest according to "portfolio theory", trying to get the best balance of risk and return by spreading funds over a basket of assets. Whereas individuals merely punt on single shares, institutions aim for relative outperformance against a market index. In fund-management jargon, this should change the dynamics driving the market from "momentum" to "fundamentals". And third, only institutions have the clout to insist on better corporate governance at firms in which they invest. They will thus be an impetus to supply-side reforms.

So how, in practice, will all this come about? The first and easiest step is to bring in proper mutual funds (known as unit trusts in Britain). China already has 33 investment funds, but most are tiny and fraudulent. They are also inappropriately designed, because they are "closed-end". They cannot grow and shrink as new money flows in and out, they must be liquidated every five years, and they tend to trade below their net asset value.

The answer is to permit "open-end" mutual funds, and this change is imminent. In April, the government passed a new trust law which, for the first time in China, separates legal ownership (by funds) from beneficial ownership (by investors) and thus allows modern regulation. With help from western banks, China's banks are readying themselves for the custodial challenges of record-keeping and documentation. A fund-management firm in Shanghai, Hua An, will launch China's first open-end mutual fund in July or August. The fund will invest in both equities and bonds, and will be capped at $600m (a tenth of what Hua An expects in investor interest). But if it succeeds, other funds will follow.

Next, insurers will be allowed to enter the market. At first, this will have less impact than you might expect, because China's insurance industry is still so undeveloped. Insurers collect less than 2% of GDP in premiums, compared with 8% in most rich countries. Together, they hold only about $40 billion in assets. At present, nearly all of that is invested in bank deposits and government bonds, at miserly yields. But the government now plans to allow insurers to invest up to 15% of their assets in equities, although it is not yet clear when this will take effect.

More difficult, but also more promising, will be the introduction of modern pension funds. Currently, China has an unfunded pension system that it inherited from the days of central planning, when state enterprises provided cradle-to-grave welfare for workers. These days, the provincial governments manage an increasingly shaky system. Every year, more schemes turn into deficit, and this will get worse as China's population ages. Beijing is now trying stop-gap measures. This month, for instance, it decreed that state companies listing new shares must pay 10% of the proceeds into a social-security fund—a pensions tax, in effect.

Yet the government hopes to find a comprehensive solution. This will involve switching gradually to a funded system, in which workers put a share of their salaries into individual accounts. To supplement this, the government will also allow privately-run pension schemes like America's 401(k) plans, in which employees choose from a menu of mutual funds. The details and timetable for these reforms may take time to become clear; there have been setbacks aplenty. Still, in May the social-security ministry said that it expected China to have $12 billion of pension money in funded schemes within two years; and $1.8 trillion in 30 years. That would do much to make China's capital markets more efficient.

Whether this happens will depend on the government's approach to foreign participation. China lacks domestic expertise in fund management—whether in investing and customer service, or in order-processing and the marketing of collective investments. In this respect, China resembles Taiwan a decade ago, says Blair Pickerell, chairman of Jardine Fleming, part of J.P. Morgan Chase. In the early 1990s, when Jardines set up in Taipei, Taiwan had almost no institutional investors or foreign fund managers. Today, there are over 40 managers of equity mutual funds. Investors are much more sophisticated. The same could happen in China.

For now, China does not allow foreigners to manage Chinese money, although it lets them "advise" domestic firms: Jardine Fleming does so for Hua An, for instance. Once China enters the World Trade Organisation, probably at the end of the year, the government promises to let foreigners take minority stakes in domestic fund managers. It has also made half-hearted noises about opening up the insurance and pension markets.

That may not be enough. The heavy guns of global fund management, such as America's Fidelity, do not like ventures in which they have no control. Nor do they see the point of re-creating from scratch computer systems and back offices for China, as the government wants, since this undermines the economies of scale on which their businesses are built. In short, global fund managers have this in common with China's savers: they hate not making money. The Communists in Beijing, whose own political future depends in large part on not dashing the expectations of savers, should bear that in mind.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Reinsurance in China

Filling a gap

Jun 28th 2001 | HONG KONG
From The Economist print edition

EPA

One reason why China uses capital inefficiently is that it lacks reinsurance

THE magic of portfolio theory applies wherever there is risk—whether in the stockmarket or in the "market" for floods, earthquakes and so on. In simple terms, it amounts to this: risk gets cheaper when mixed with other, uncorrelated risks. Say that a dollar of capital must be set aside as a safeguard against one unit of fire risk. In a portfolio of 100 units that are far enough apart not to be burnt by the same fire, each unit might require only 90 cents; in one of 1,000 risks, 70 cents, and so on. The larger the portfolio, the more capital is freed up.

Not only does China at present have such an inefficient market in insurance that it pays "the whole dollar"; it also does not have enough dollars. Take the Three Gorges dam (above), now being built across the Yangzi river. This single project will cost about four times the total premiums of China's entire non-life insurance industry, and about twice its assets. One hiccup in one location, and China is out of insurance—and a lot else besides.

China will suffer even if it is spared catastrophes. This is because its companies and households have to save more than is necessary to guard against some risks, and to pay a higher price to insure themselves against others. China is therefore wasting capital that could be used for other things. This is largely because the country lacks a reinsurance industry.

It has one in name. China Re is a monopoly that was spun off in the 1990s from the People's Insurance Company of China (PICC), itself formerly a monopoly in both life and non-life insurance. Never mind that the state owns both China Re and the remainder of the old PICC, and that all risk therefore defaults to the taxpayer. More perversely, every Chinese insurer, even the few recent private-sector upstarts, must cede (that is, reinsure) 20% of each policy—irrespective of the risk or its correlation to others—to China Re. The reinsurer, in turn, is not allowed to retrocede (that is, re-reinsure) to foreign insurers. It therefore duplicates exactly the risk profile of China's primary insurers, with hardly any portfolio effect at all.

Fortunately, the government has understood the insanity of this. At the same time, fixing it is easier than reforming other parts of China's capital markets—since the simple solution is to allow foreign reinsurers into the market. The most efficient risk portfolio possible is a well-balanced worldwide one, and that is what Swiss Re and Munich Re, the world's top two reinsurers, have to offer. The government has hinted in bilateral talks with Switzerland that it would give Swiss Re access to its market "shortly after WTO accession". And in contrast to its approach to foreign primary insurers, to whom it parcels out licences in one city at a time, it seems willing to give reinsurers access to the whole country.

Because every Chinese risk becomes cheaper if it is ultimately reinsured, China's economic development should then proceed faster and withstand more catastrophes. "That's our value proposition in China,"

says Franz-Josef Hahn, Swiss Re's head of China. It amounts to helping underwrite China's economic reforms—and even China's Communist regime itself. In Beijing, this penny seems to have dropped.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Transatlantic trade

Occasional squalls

Jun 28th 2001 | WASHINGTON, DC
From The Economist print edition

A ruling against America aggravates trade tensions

AP

Will Pascal remain pals with Bob?

PASCAL LAMY, Europe's trade commissioner, and Bob Zoellick, his American counterpart, are famously good pals. Both have worked hard to improve a trade relationship that is often fractious. With some success: when George Bush visited Europe in mid-June, he pledged support, along with European leaders, for an "ambitious" new world trade round. Now, the bonhomie is about to be tested.

The latest challenge is an interim ruling by the World Trade Organisation on the legality of America granting income-tax breaks to exporters. Last year America changed the way it taxes exporters, in response to an initial ruling that its system broke WTO rules. Now the trade body has ruled against America again. A final decision will not be made public until August, but a leaked interim ruling suggests that America lost on nearly every point. If upheld on appeal, this would allow the European Union to impose up to $4 billion of punitive tariffs—ten times the tariffs imposed in the spats over beef and bananas.

No final decision is likely until after the November WTO summit at which a new global trade round is due to be launched. Also, the sheer scale of the potential trade war between America and the EU makes each party wary of firing the first shot.

Of the dozen-odd trade disputes between Washington and Brussels, all but one are European complaints at American behaviour, notably over steel. The Europeans are cross at American misuse of trade-protection instruments, such as anti-dumping and countervailing duties. On June 5th Mr Bush said he would help American steel by instigating a so-called "section 201" investigation, to the immense irritation of the Europeans.

Left to themselves, Mr Lamy and Mr Zoellick could probably sort out these spats. A less rational force is America's Congress, where suspicions of Europe are growing. The EU's opposition to the merger of GE and Honeywell, while not a trade issue, has raised hackles. Senator Fritz Hollings, chairman of the Senate Commerce Committee, fired off a letter to Mr Lamy this week, saying that a blocked merger would "undermine an already strained EU/US trade relationship".

Lawmakers will bridle at changing again the way America taxes exporters. A Senate insider says that, in retaliation, Congress may challenge European tax codes. More disputes over steel—which has powerful friends in Congress—would raise temperatures. Since the administration needs Congress to grant Mr Bush trade-promotion authority to negotiate a new trade round, Mr Zoellick's relationships with congressmen may be pitted against his friendship with Mr Lamy.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Wall Street

Of Aces and busted flushes

Jun 28th 2001 | NEW YORK
From The Economist print edition

Profits slump amongst investment banks

ALAN “ACE” GREENBERG chose his nickname to improve his chances with girls at the University of Missouri. But it is an apt encapsulation of his trading skills on Wall Street. This week, as the 73-year-old steps down as chairman of Bear Stearns, the investment bank where he has worked since 1949 is on a high. It recorded an increase in post-tax profits in the second quarter of 43% on a year earlier, at a time when many of its Wall Street rivals have stumbled. On June 26th Merrill Lynch issued a warning that its profits in the second quarter would fall by half, far short of expectations. Goldman Sachs and Morgan Stanley have also reported lower profits.

Strange that this surprised. Thanks to Alan Greenspan’s frenetic cuts in interest rates, times are good for underwriters and traders of bonds, core activities for Bear Stearns and Lehman Brothers, which also recorded a sharp increase in profits. It has been a lousy time for equity underwriters and for advisers on the meagre amounts of mergers and acquisitions (M&A) this year. Merrill, Goldman and Morgan Stanley are three of the investment banks that gained most during the boom in equity and M&A business, and they are now suffering the most. Of the three, Merrill is weakest in bonds. It cut back its fixed-income activities after the collapse of Long-Term Capital Management (LTCM) in 1998. As it happens, both Bear Stearns and Lehman have long been criticised for their weakness in equities.

Mr Greenberg is famous for worrying about even the price of a paper-clip at Bear Stearns. This used to seem terribly unfashionable, but these days other Wall Street firms are obsessed about costs. Lay-offs are increasing, though not yet alarmingly—not least, because banks saw how Merrill Lynch lost ground when the markets rebounded quickly after the LTCM crisis. Still, if few signs of improvement show soon, expect real blood-letting on Wall Street.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economics focus

A blunt tool

Jun 28th 2001
From The Economist print edition

Is monetary policy less effective these days?

THE quarter-point cut in interest rates by America's Federal Reserve on June 27th takes the total reduction in rates over the past six months to 2.75 percentage points—one of the most aggressive easings in Fed history. Yet it seems to have done little, so far, to revive America's economy. Monetary policy always needs time to take effect. This time the wait seems especially nerve-wracking.

The latest batch of economic statistics paints a mixed picture. The economy may yet avoid recession, but hopes of a quick, strong bounce-back have faded.

One reason why interest-rate cuts may have been less effective than expected this year is that they have actually done little to ease financial conditions. The Fed's main policy tool is the federal-funds rate, the rate at which banks lend overnight to one another. However, this rate has little direct impact on the economy, since neither firms nor households pay it. The transmission mechanism through which changes in the federal-funds rate affect the economy is a good deal more complex. The size of a cut in the rate can be a poor measure of the likely impact of monetary policy.

Broadly, monetary policy affects the real economy through three channels:

•Through the cost of borrowing in the market which, if reduced, could be expected to spur consumer spending and investment. Interest rates on short-term loans do indeed tend to move in line with the federal-funds rate. But much other borrowing, by both firms and households, is linked to bond yields, which hang more on market expectations about future interest rates and inflation than on changes in short-term rates.

•Through the exchange rate. In theory, looser monetary policy should push down the the dollar, so boosting exports.

•Through the prices of financial assets, especially equities. If lower interest rates lift share prices, this may boost consumer spending as private shareholders feel wealthier, or spur corporate investment by reducing the cost of capital.

If changes in the federal-funds rate do not feed through into market rates, the dollar or share prices, they will have little effect upon the economy. Bruce Kasman at J.P. Morgan Chase has analysed the Fed's macroeconomic model of the American economy, derived from past behaviour. According to the model, a one percentage-point reduction in the federal-funds rate should raise the level of GDP by 1.7% after two years, but by only 0.6% after one year. This may suggest that America simply needs patience.

However, the model also suggests that, if lower interest rates are to revive the economy, a cut of 2.5 percentage points (the size of the cut until this week) would normally be expected to have lifted share prices by 22% within a year, reduced long-term bond yields by three-quarters of a point, and left the dollar 5% weaker. Yet since the Fed first started to slash interest rates on January 3rd, the S&P 500 has actually fallen by 10%, the dollar's trade-weighted value has gained 7%, and both bond yields and mortgage rates have remained broadly unchanged.

This is neatly summed up by the "financial-conditions index" which Goldman Sachs calculates every day. This is a weighted average of short-term interest rates, corporate-bond yields, share prices and the trade-weighted dollar, with the weights derived from the Fed's model. The index has fallen only modestly since the start of this year, because the stronger dollar and lower share prices have offset lower short-term interest rates.

Stiff levers

In previous economic cycles, as much as two-fifths of the total impact of interest-rate cuts on GDP, on average, has come through the stockmarket and the dollar—two channels that now appear to be blocked. This suggests that the Fed will have to push even harder on the monetary lever to revive growth.

The Fed has another concern. Not only have long-term borrowing costs failed to follow short-term rates down, but households and firms may also be less responsive to lower rates. They may not want to borrow any more because they are already up to their ears in debt. With capacity utilisation in manufacturing at its lowest for 18 years, firms will also be reluctant to invest more.

Yet there is no need for too much gloom about the dwindling powers of the Fed. The economy does look fragile, but what if the Fed had done nothing? Share prices would have fallen more sharply, as would business and consumer confidence. As it is, consumer confidence has not, so far, been greatly dented. And the Fed's easing has helped to prop up the housing market. In other words, the Fed still carries clout.

Central bankers certainly think so. In April, the Federal Reserve Bank of New York held a conference on the monetary transmission mechanism. One paper* observed that, since the early 1980s, changes in the federal-funds rate seem to have had a smaller impact on output. However, the authors concluded that there was no evidence that firms and households had become less sensitive to changes in interest rates. Instead, the impact of changes in monetary policy seems to have declined because the conduct of policy has improved over the past two decades. The Fed now responds more quickly to changing economic expectations, which has helped to smooth out the effect of interest-rate shocks, reducing the variability of output and inflation. A reassuring conclusion for central bankers—but it will need revisiting in a year's time.

---

* "The Monetary Transmission Mechanism: Has it Changed?", by Jean Boivin and Marc Giannoni.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

The recession index

Don’t mention that word

Jun 28th 2001
From The Economist print edition

Top American and German newspapers are writing less about recession

STOP fretting about recession. That is the message from America’s R-word index. For each quarter, we count how many stories in the *New York Times* and the *Washington Post* include the word “recession”. Alarm bells were set off by the sharp jump in the “R-count” in the first quarter of this year, at a rate that in the past has signalled the start of a recession. In the second quarter, however, the number of articles fell by more than one-third. A conspiracy theorist might suggest that newspaper editors, worried about dwindling advertising revenues, have banned the R-word.

The Economist has found that over the past two decades, the R-word index has been good at spotting turning-points in the American economy. Unlike GDP figures which appear only after a lag, the numbers are instantly available. But how does the index perform in Germany, where there have also been growing fears of recession? Using our idea, HypoVereinsbank has constructed an R-word index for Germany, counting the number of times the word *rezession* appears in *Handelsblatt*.

Worryingly, Germany’s R-count for the first quarter of 2001 showed the second-steepest rise in the past two decades. But in the second quarter, the index dropped by one-third, as in America. Either the world economy has nothing to worry about, or journalists are more worried about a depression than a mere recession. A D-word index?

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

A new European exchange

Hunting where the ducks are

Jun 28th 2001
From The Economist print edition

The Swiss Stock Exchange has bet on a new, virtual exchange

IT IS a gutsy, un-Swiss bet. On June 25th the Swiss Stock Exchange (SWX) moved its trading of blue-chip Swiss shares—lock, stock and barrel—from Zurich to London, joining forces with Tradepoint, a small electronic exchange already based there. Virt-X, as the new exchange is called, aims not only to dominate trading in Swiss shares, but also to grab a big share of pan-European trading. Its first day went well: *euro*2.5 billion ($2.2 billion) of trades, of which 12% came from non-Swiss shares, including GlaxoSmithKline and other British blue chips.

Liquidity is all—and most upstart exchanges have failed to attract it. These include Jiway, a joint venture between Morgan Stanley and Sweden's OM Gruppen, as well as Tradepoint itself (it started trading in 1995). Virt-X's chief executive, Antoinette Hunziker-Ebneter, insists that her new exchange is different. Liquidity in most Swiss blue-chips is all but guaranteed (it was the big Swiss banks dominating trading on the SWX that had insisted on the move to London).

Virt-X can also charge lower fees for cross-border trades, thanks mainly to its "straight-through" processing—its handling of clearing and settlement through special deals with European settlement agencies. Few rivals can offer this; and, in general, high clearing and settlement costs remain a big obstacle to cross-border share-trading in Europe.

Tiny Tradepoint was not the Swiss exchange's first choice when looking for a London partner last year. For one, the London Stock Exchange (LSE), busy at the time trying to merge with Deutsche Börse, said no. Still, Tradepoint appealed, for three reasons. It is regulated by Britain's Financial Services Authority, regarded as a model on the continent. It can sign up American investors directly, because it is the only European exchange to be recognised by America's Securities and Exchange Commission. And the consortium of banks and fund managers, along with Instinet, an electronic broker, that took over Tradepoint in 1999 can itself bring orders to the new stockmarket.

Ms Hunziker-Ebneter's plan is to trade 10% of European blue chips after a year. An ambitious goal, concedes Doug Atkins, chief executive of Instinet. If it is achieved, the LSE, which is still considering its options for alliances or mergers, will surely come knocking at Virt-X's door.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Japanese banks' bad loans

Mere fiddling

Jun 28th 2001 | TOKYO
From The Economist print edition

A step forward, a step back for bank reform

WHEN Junichiro Koizumi was elected prime minister in April, he vowed to push through structural reforms to help revive Japan's economy. To this end, he promised to clean up the banks and to sort out dud borrowers in industries such as construction and retailing. But the measures unveiled on June 26th tell a different story. Bank reform, even under Mr Koizumi, is making little progress. And the old guard has managed, under the guise of reform, to sneak through some pet schemes designed to coddle, rather than reform, the financial system.

Chief among these is a stock-buying body, guaranteed by the government, that aims to help banks shrink their loss-ridden equity portfolios. This, argues the Financial Services Agency, is a step to a deeper reform that would restrict banks' equity shareholdings to less than 100% of their "tier-one" capital by about 2004. The entity will be funded by contributions from the banks themselves.

Although limiting the shares that banks may own has met with widespread approval, the stock-buying fund has not. The banks say they would prefer to sell stocks in the open market, as they have done so far; they fought hard to ensure that the fund's use will be voluntary. Sceptics also question how a fund that may buy at most ¥2 trillion ($16.1 billion) of shares can help banks make the ¥13 trillion or so of share sales needed to meet the new limitations. And reformers such as Yasuhisa Shiozaki, a politician in the ruling Liberal Democratic Party (LDP), argue that the scheme contradicts Mr Koizumi's stated goals of structural reform. It distorts market mechanisms that help weed out bad from good.

A new initiative to strengthen the role of the Resolution and Collection Corporation (RCC), an institution that buys duff assets from banks, seems more promising. Reformers hope that proposals to create a new section within the RCC in charge of corporate restructuring might speed up the disposal of bad loans: it should allow bulk sales and the securitisation of bad loans and property collateral. The plan's flaw is that it applies only to the ¥13 trillion of dud loans already being tackled by the banks. The RCC cannot touch the remaining ¥60 trillion or so of problem loans that still need to be sorted out.

That these loans are souring dangerously was highlighted by a recent study by the *Nikkei* newspaper, based on data from the Financial Services Agency. It showed that almost three-quarters of loans to companies that went bust last year had been classified as sound or merely in need of monitoring. Banks are either misclassifying problem loans, or the economy is deteriorating faster than they expected.

The restriction on the RCC illustrates the government's reluctance to tackle these "grey" problem loans. Mr Koizumi's latest structural reform programme pledges to remove all bad loans from the banks' books over the next three years, but, with such restrictions, it is not clear how. Pro-reformers believe that better bank inspections and stricter rules on loan classification would help tackle the rot.

Such ideas have met surprising resistance from Hakuo Yanagisawa, the minister in charge of financial affairs, who insists that bank inspections and loan classifications are tough enough already. Until recently, Mr Yanagisawa was seen as a leading reformer in the LDP. He is now being attacked, especially since he denies that banks need more public funds. Some suggest he does not want to admit that the previous round of public funding, which he oversaw, was a failure. Others suggest that Mr Yanagisawa might have become afraid to push reform, because he knows how big the problem is.

Whatever. The government has stuck to merely toying with bank reform rather than tackling the root of the bad-debt problem. Parts of the plan seem to have been cobbled together so that Mr Koizumi can take them to America on June 29th. He might find folk in Washington, DC, less easy to convince than voters at home.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Russian debt

Pay up

Jun 28th 2001 | MOSCOW
From The Economist print edition

A tenacious foreign creditor is harrying Russian assets

FOREIGN financiers mouthing off about the legal wars they will unleash to recover bad debts in Russia rarely mean much. The expense of a lawsuit outweighs the satisfaction; the chances of getting any money are slim.

Yet Noga, a company owned by Nessim Gaon, a 78-year-old businessman based in Geneva, has been suing the Russian government since 1993, attempting to seize Russian assets abroad. At Mr Gaon's request, bailiffs last week very nearly grabbed two of Russia's most advanced warplanes at the Paris air show. The organisers tipped off the Russian authorities, and the planes flew home, just in time. Other near-misses include a sail-training ship, the *Sedov*, nuclear-waste shipments, and the president's plane.

Mr Gaon, whose previous business partners include regimes in Nigeria and Sudan, put an unusual clause in his original export deals: Russia must waive its sovereign immunity. An arbitration court in Stockholm has found in his favour, so far, to the tune of $110m, out of a total claimed of $420m. Other courts around the world have let him have a crack at any Russian assets within reach.

The odd thing is why Russia, now awash with cash, does not simply pay up. Mr Gaon says he was told at one point that a 10% kickback on the debt to someone high up in the finance ministry would solve things. Fending off Mr Gaon costs much in legal fees. Not accepting international judgments sits ill with the current Kremlin line on the rule of law. Mr Gaon says his next move will be to seize Russia's embassy in Paris.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Bank regulation

Basel postponed

Jun 28th 2001
From The Economist print edition

Bank regulators get an extra year to complete a new regime

THE Basel committee of rich-country bank supervisors this week said it would take an extra year to prepare its ambitious new plans for bank capital. Relief? Yes. Surprise? No.

The new plans redraw the way the world's biggest banks would be supervised. At present, banks set a fixed ratio of capital against so-called risk assets. The proposals would allow the most sophisticated banks, if they passed muster, to use their own measures of risk to determine how much capital to set aside against both "credit" and "operational" risk.

Yet the plans to use banks' own risk-assessment models still look like a building-site. Overwhelming criticism from trade associations, banks, national regulators and others, filed before a deadline on May 31st, told the boffins of Basel that they needed to do a third draft, this time in closer cahoots with bankers.

The timetable for implementation now stretches to 2005. The hope is that this will be enough time for new consultative papers to be finished by September, and for a final draft in January inviting comments by next June. That should lead to a final accord, called Basel 2, by the end of 2002. There would then be two years for banks to prepare their models and reporting systems, and for the EU to pass and implement a capital-adequacy directive for banks and investment firms, modelled on Basel 2.

This is a tight schedule even with the extra year, and the Basel committee is deliberately shutting out debate on "new" issues. Work will focus instead on recalibrating the calculations for credit risk and operational risk, they say. There has been a lot of concern about the impact of the credit calculations on bank lending to smaller businesses, retail customers, big projects and emerging markets.

Some broader, even philosophical, issues will not go away, though. The new Basel accord is "at war with itself", says one negotiator, because it is trying to make regulatory capital charges more risk-sensitive, while keeping banks as a "public good" and a buffer against economic downturns. Getting banks to hold more capital and lend more prudently during booms than during busts is like coaxing a cat to put liver in the fridge. So how to write such rules?

The regulators have to agree what they want banks to be, and then write the rules. At their first attempt in January, they got ahead of themselves by trying to prescribe how banks should calculate credit and operational risk, even as banks were still trying to pool enough meaningful data.

This time around, the committee intends to be more concerned with simple and consistent rules for less sophisticated banks and banking systems. One of its tasks is to create rules and ratios that might have pre-empted the Asian banking crisis of 1997. The plea from the International Monetary Fund is for an accord appropriate to all banks in all countries, which does not idolise (for adoption as best practice) the modelling techniques of only a few sophisticated international banks.

The Basel committee has to get this right. The costs of the Asian and Russian banking crises of 1997-98 were $140 billion to taxpayers and $350 billion to investors, according to Credit Suisse. These will be dwarfed by the costs of Basel 2, the Swiss bank says. It calculates that 30,000 banks worldwide could be spending an average of $15m each year over five years to implement the accord—a total of $2.25 trillion. If the benefits to banks and taxpayers do not run to hundreds of billions of dollars, it says, "Basel 2 will have failed".

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

AIDS

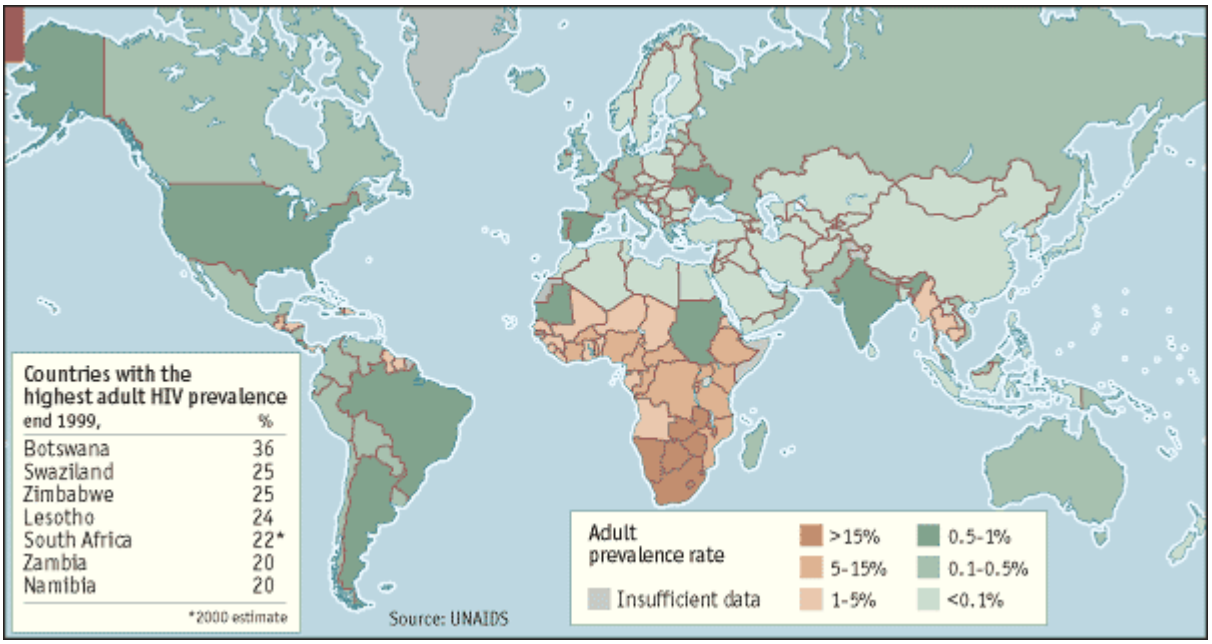
United against AIDS?

Jun 28th 2001 | NEW YORK
From The Economist print edition

A special session of the United Nations suggests that the threat posed by AIDS has been acknowledged by the world's politicians. How much action will follow?

Get article background

MEASURED in nature's terms, HIV is a success. In the 20 years since its effects were first medically recognised, the immuno-deficiency virus is thought to have infected almost 60m of its primary host, people, and that number grows by 16,000 a day. But, as Greek philosophers knew, man, not nature, is the measure of all things. And in human terms HIV is a disaster. Of those 60m people, more than 22m have already died of AIDS, the disease it causes. Most of the rest will die soon.



This week's special session of the United Nations General Assembly in New York may not have done anything directly to halt the disaster, but it has at least given it official recognition. Around two dozen heads of state and government, many from afflicted countries in Africa and the Caribbean, turned up. This is progress. Until recently the governments in many of these places were in denial ("it is a gay disease, and there are no gays in this country"). Others pretended that the disease did not exist for economic reasons ("it would put off the tourists"), or religious ones ("no promiscuity here, mate").

Not all politicians have abandoned such thinking. Thabo Mbeki, president of South Africa, one of the worst afflicted countries, still claims to have doubts about the link between HIV and AIDS. He snubbed the meeting, even though he was in America to see George Bush (who also chose not to come). And there was a wrangle over the wording of the final declaration, as Muslim nations objected to the references to gays, drug users and prostitutes. Eventually, a reference to human rights was deleted from the preamble. But a declaration was, at least, agreed.

Fine words, however, butter no parsnips, and the test of whether things have changed will come when the presidents and prime ministers have gone home. Will they spend enough money to combat the disease, and will they spend it wisely?

A billion here, a billion there

A prior question is how much could usefully be spent fighting AIDS. A paper published in *Science* just before the UN meeting started attempts to analyse the task. The authors, led by Bernard Schwartländer, an epidemiologist who works for UNAIDS, the UN agency created to combat the disease, reckon that an effective campaign against it in Africa, Asia and Latin America would cost $9.2 billion a year by 2005.

That is suspiciously (or gratifyingly) close to the sum requested two months ago by Kofi Annan, the UN's secretary-general, to set up a global fund to fight AIDS. The details of this fund are still hazy. But Mr Annan's target is to raise and spend some $7 billion-10 billion a year. Most of this, he hopes, will come from governments in rich countries (America has already offered $200m and other countries pledged smaller sums during the meeting). Though, a few days beforehand, the private Bill and Melinda Gates Foundation also chipped in.

Although the sums seem similar, the approaches of Dr Schwartländer and Mr Annan differ considerably. The *Science* paper includes existing spending, such as the $500m that America already gives poor countries to fight the disease. The global fund seems to be a request for new money. It is also more of a Robin Hood affair, taking from the rich and giving to the poor. Dr Schwartländer, by contrast, reckons that somewhere between a third and half of the total might be raised in the countries where it is spent. Brazil's social health insurance programme, for example, spends more than $300m a year fighting AIDS.

This difference is important. The hole that needs to be filled by new foreign aid is, according to the Schwartländer calculation, nearer to $4 billion than $10 billion. That, in the context of existing development-aid transfers of $52 billion, sounds a more plausible target. And donors are also more disposed to help those who have shown a willingness to help themselves.

A good example of this self-help principle is foreign-debt relief for poor countries. It may be no coincidence that many of the world's most indebted countries are also AIDS-ridden. Both afflictions are symptoms of mismanagement at the top. But for those sinners who claim to have repented, and so are to be absolved of part or all of their debts, there is the question of what to do with the money that no longer has to be handed over as interest payments. Eighteen African countries have agreed in principle to spend part of the windfall fighting AIDS, as a condition of the cancellation taking place. The ten with whom concrete plans have been agreed will collectively devote $45m a year to the disease.

That is not much in the grand scheme of things, but it shows goodwill. It is also economically sensible, for AIDS is a financial as well as a human catastrophe, and spending on the disease will boost economies. A report released during the meeting by the UN Development Programme suggests that if the epidemic remains untreated, the worst-affected countries could see their economies shrink by as much as 40% over the next two decades.

Businesses are also beginning to notice the economic consequences of AIDS. Both Coca-Cola (the largest employer in Africa) and DaimlerChrysler (which has a manufacturing plant in South Africa) made announcements just before the meeting about their anti-AIDS strategies. DaimlerChrysler's includes extensive medical care and access to drugs for all employees who are infected. An organisation called the Global Business Council on HIV/AIDS, which has about 100 member firms, is trying to co-ordinate such initiatives, and promulgate common standards for businesses that want to follow suit.

Anyone who had a HAART

Raising money to combat AIDS is, however, but half the battle. The other half is spending it wisely. Doing so in countries that do not have shining records of official financial probity will not be easy.

Dr Schwartländer has, nevertheless, done his sums carefully. Of his $9.2 billion, $4.8 billion would be directed towards prevention, and $4.4 billion towards treatment. And this is where the argument really starts. Few people argue about spending money on prevention. Dr Schwartländer lists ten diverse approaches that practice has shown to be effective. (Mostly, these amount to condoms; nevirapine, a drug that prevents mother-to-child transmission at birth; and better education.)

Treatment is another matter. The only effective treatment for AIDS is a combination of drugs called highly active anti-retroviral therapy (HAART). This, if taken correctly, stops HIV multiplying in a patient's body. But it is very expensive. An average course costs $10,000 a year in a rich country. It used to cost that in a poor country, too, but recently the South African government threatened to bypass the patents that protect HAART, and make it without permission. The drug companies caved in and agreed to make HAART available more cheaply to the poor world. This week the American government dropped a

complaint against Brazil's patent law, which has similarly enabled that country to offer cheaper AIDS treatments.

A year's course still costs an African about $500—a sum affordable only by the middle classes. Even so, Dr Schwartländer thinks that HAART can be made widely available within five years. He envisages a quarter of the $9.2 billion being spent on this treatment. That seems, to put it kindly, ambitious. It may also be misguided.

The issue of prevention versus treatment is deeply controversial in AIDS circles. HAART does not cure AIDS—for now, there is no cure. It merely staves off the symptoms, and it may not break the chain of infection, as people taking the drugs are still able to transmit the virus. It also requires compliance with a complicated regime involving three different drugs.

Such compliance is hard to enforce, even among people who understand the theory (the multi-drug approach is designed to stop the emergence of drug-resistant strains). Less sophisticated users routinely ignore the rules, damaging themselves and releasing drug-resistant strains of the virus into the wider world. Existing distribution systems are inadequate for cheap and proven drugs against malaria and tuberculosis. It takes a certain optimism to believe that HAART will fare any better. Those whose focus is on stopping the epidemic, therefore, tend to prefer spending money on prevention.

Dr Schwartländer's calculations assume the best of both worlds, but if only a fraction of the money that he thinks is needed actually emerges, tough decisions will have to be made. There is a clear irony here. One reason that AIDS looks as though it may now receive the attention it deserves is that it has attracted a band of successful activists, many of them infected with HIV. Such activists, understandably, want to be treated. It is a laudable goal that poor people with AIDS should get that treatment. But if the money is diverted from the task of stopping others becoming infected in the first place, that may, in the long run, lead to even more deaths. The full measure of this epidemic is still by no means clear.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Wildlife conservation

A new game plan

Jun 28th 2001 | NAIROBI
From The Economist print edition

A private company has taken over one of Kenya's most famous wildlife parks

UNTIL recently, tour guides at the world-famous Masai Mara game reserve in Kenya had to steer parties of tourists away from certain areas. For although the park is rich in some of the world's largest and most spectacular animals, there was a risk of finding a giraffe or impala wandering around with an arrow sticking out of its neck—hardly the sort of thing that appeals to visitors hoping for a glimpse of unspoiled wildlife. There was little the park rangers, who had no radios, no official vehicles, and had not even been paid for months, could do to deter hunting by local people living adjacent to the park. In short, the management of the reserve had completely broken down.

This sorry situation may now change, at least in a region known as the Mara triangle, which covers 520 square kilometres and accounts for about a third of the reserve's total area. On June 12th the previous (and by all accounts breathtakingly inept) custodians were replaced by a private management firm called the Mara Conservancy. Thanks to a gift of $300,000 from two foreign donors, four new Land Rovers have already arrived, the roads are being repaired and the staff have been paid. And, most important, the firm plans to revolutionise the way the park is run.

The reserve actually belongs to the Masai people. Various bits of it are managed on their behalf by two local councils, one of which has now been replaced by Mara Conservancy. Earnings, such as the $27-a-day park fees paid by tourists, were meant to go towards preservation of the reserve and also to providing social services and supporting local people who live on the adjacent land. But in practice, very little ever got past the rangers or the council.

The Mara Conservancy plans to solve this problem by publishing its accounts (something that is unusual in Kenya) and farming out the collection of park fees to a separate, private company, so that there is no question of any funny business. The organisation will run on a non-profit basis, keeping half of the revenue to pay for road-building, anti-poaching patrols and administrative costs. The combination of a well-paid chief executive and a board whose members have a direct interest in the preservation of the reserve should ensure that this money is well spent, and does not simply vanish.

The rest of the money will be handed over to the local council, which will, as before, be responsible for distributing it. But the hope is that under the Mara Conservancy's new, more transparent approach, some of the money will actually filter through to the Masai (and to their neighbours, who should then feel less inclined to hunt for food on the reserve).

The support of the Masai is crucial. They have given up some of the best grazing land in East Africa for the benefit of the wildlife. On paper, they are worse off, since under the old regime they were entitled to almost all of the revenue from the park, rather than just half of it. But in practice they more often ended up with nothing, so they stand to gain under the new scheme.

Opposition to the changes has been muted by the strong support of Daniel arap Moi, Kenya's long-serving president. Opponents of the plan, however, argue that, despite the local council's approval, the reserve is being taken away from them. Then there is the ferocious internal politics of the Masai. Some of the Mara Conservancy's board members are unpopular, and some people who are not on the board believe they should be. But Brian Heath, the new chief executive of the organisation, hopes that opposition will dwindle as people begin legitimately profiting from the reserve.

If the Mara Conservancy's approach succeeds, it could be imitated elsewhere. Although many parks in Kenya are well run by the Kenya Wildlife Service, others are run by local councils, for which the new approach could be a model. And the next step might be "game utilisation"—dirty words in Kenya, but by-words for efficient wildlife management elsewhere in Africa. South Africa, Zimbabwe, Botswana and Tanzania all allow a small amount of controlled hunting, which can be extremely lucrative. But the

immediate goal is to save the Mara from years of decline, so that it can reclaim its place as a jewel in the crown of Kenya's tourist industry.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Fibre optics

The glass ceiling

Jun 28th 2001
From The Economist print edition

Optical fibres could carry more information in the future

WHAT is the theoretical limit to the rate at which information can be sent down an optical fibre? With telecoms firms' shares in the doldrums and widespread talk of a glut of capacity, this might seem an odd time to ask such a question. But that is what a group of researchers at Lucent Technologies' Bell Laboratories in Murray Hill, New Jersey, have done. And they have found that the limit is far beyond the reach of today's technology, which means that there is plenty of scope to increase capacity in future—or, to look at it the other way round, that the present glut is even bigger than it looks.

Sending large amounts of information down an optical fibre is done by encoding many separate streams of data as pulses of light of different colours, so that they can travel along the fibre without interfering with each other. Today's technology allows a fibre to carry 160 such streams, each with a capacity of 10 gigabits per second (one gigabit is a billion binary digits). This gives a total capacity of 1,600 gigabits, or 1.6 terabits (a terabit is a thousand gigabits), per second. As the equipment at either end of the fibre becomes more sophisticated, the number of channels, and the capacity of each channel, increase, even though the fibre itself is unchanged. How far can the process go?

That is a hard question to answer, because light travelling along a fibre subtly changes the properties of the fibre itself, in a way that is difficult to model. What makes it even harder is that these changes are retained—the fibre in effect "remembers" recent signals for a short period of time. This means that, as more streams of data are added, they interfere with each other in very complex ways. It is rather like trying to distinguish between multiple overlapping conversations; easy enough when a handful of people are speaking distinctly in a quiet room, but impossible when everyone is shouting in a reverberant nightclub.

In a paper in this week's *Nature*, Partha Mitra and Jason Stark of Lucent explain that they have found a way to do this tricky analysis. By combining techniques from the fields of information theory and theoretical physics, they have devised a clever new model of optical fibres that is simple enough to analyse, but complex enough to capture the behaviour of the real thing. Using this model, Dr Mitra and Dr Stark concluded that the capacity of a single fibre is at least 100 terabits per second (the same amount of data as is on 28,000 full-length CD-ROMS).

So, the $35 billion spent in recent years laying optical fibre may be a good long-term investment. Little comfort to the firms that paid for it, many of which are unlikely still to be around if it is put to full use. But for the engineers working to squeeze ever more down each fibre, the new result proves that, even if the sky is not the limit, the ceiling is very far away.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Computers and movies

HAL's new pals

Jun 28th 2001
From The Economist print edition

Cinema's computers and robots still think like people

Get article background

CINEMA'S quest for artificial intelligence (AI), the subject of Steven Spielberg's latest blockbuster (see article), is almost as old as the movies. As far back as 1900, Georges Méliès, the father of cinematic fantasy, made a film version of "Coppélia", the animated doll that gave her name to the ballet, while 1913 saw the first of many versions of "Golem", about a clay statue allegedly brought to life in 1580 by Rabbi Loew in Prague.

Golem means shapeless mass, and it is this that distinguishes AI pictures from their close cousins, monster movies, of which "Frankenstein" (1931) is the best example. Frankenstein's creature does not have AI because he is fashioned of human parts reanimated by a bolt of lightning. He is still human, however deformed and psychotic, whereas the golem and the army of cinematic robots stretching back to "Metropolis" (1926) began as inert clay and metal. Their existence, by definition, implies that man, who created them, is the new God. But just as man, as the Bible tells it, disobeyed God and paid the penalty, so now his own inventions seek to oust their creator. That has been the thrust of many of the best AI movies to this day.

There is one brilliant, almost unknown film that makes this point. Released unheralded by a studio that had lost confidence in it, "The Forbin Project" (1969) is about a supercomputer called Colossus that is empowered to decide whether to launch a nuclear missile strike, since the factors involved are too complex to be evaluated in the time available by a human mind. What Dr Forbin, Colossus's creator, does not know is that Russia has a similar device, known as Guardian. The two soon learn to converse. In no time, they seize electronic control of both countries' missile systems and hold the human race to ransom. They will end wars, disease and poverty, they promise, if man submits to their will. "Never," says Forbin, but the alternative is bleak. Dare man defy the might of his new God? Will devastation follow?

"The Forbin Project" picks up the theme of antipathetic computers from the most famous AI film of all, "2001: A Space Odyssey" (1968). HAL, Stanley Kubrick's computer hero, is no more malevolent than Colossus or Guardian. It simply recognises that humans are fallible and prone to error. Should a voyage to Jupiter, with all it may reveal, be entrusted to such a flawed creature? The logical answer is no, so HAL takes steps accordingly.

"Dark Star" (1974), John Carpenter's first feature film, explores a similar theme, albeit with tongue in cheek. Here the AI is embodied in a bomb powered by modern technology. The exhausted crew of a clapped-out spaceship has a mission to fulfil: to destroy rogue planets. But the bomb, itself tired and with nothing to do, has spent its idle hours mugging up on philosophy. "I think, therefore I am", it learns, so it decides the time has come to detonate.

In "Dark Star", a bored bomb mugs up on philosophy before deciding to detonate

HAL, Colossus and the thinking bomb in "Dark Star" despise the human race. They see the future as a war that creatures with AI will win because emotion does not cloud their judgment. "Demon Seed" (1977) is in many ways even more disturbing. Directed by Donald Cammell, who committed suicide because of the lack of critical understanding, it imagines a computer eager to weld the best of its own kind to the best of mankind. In short, it seeks to impregnate Julie Christie and produce a new species—part human, part computer. When it does, the result challenges knee-jerk responses to beauty and ugliness.

Might robots and computers be friendly after all? Disney, predictably, thought so in "D*A*R*Y*L" (1985),

an acronym for Data Analysing Robot Youth Lifeform, while “Short Circuit” (1986) invented a cute, doe-eyed robot called Number Five, further anthropomorphised in the 1988 sequel as Johnny Five. “Blade Runner” (1982), Ridley Scott’s film derived from the Philip K. Dick story “Do Androids Dream of Electric Sheep?”, is sci-fi’s first love story, with Harrison Ford as a private eye programmed to wipe out replicants. Replicants are essentially human except for their built-in sell-by date. Can love overcome this apparently insuperable barrier?

The replicants in “Blade Runner” look like humans and are indistinguishable from them. Robots who behave almost as humans but do not look like them date back to Robby in “Forbidden Planet” (1956), a robot who resembles a talking juke box. The film was really “The Tempest” relocated to outer space, with Robby filling the Ariel role on the non-existent planet of Altair 4. Among other things, Robby is a wizard chemist, who can duplicate anything of which he is given a sample. So the Earthlings who visit Altair 4 feed him a shot of bourbon and out, with an accompanying burp, comes a case of Jack Daniel’s.

Passing over Robin Williams’s Pinocchio-like robot who yearns to be human in “Bicentennial Man” (1999), some of the most intriguing robots are the Arnold Schwarzenegger figures in the two “Terminator” films and the all-metallic Gort in “The Day the Earth Stood Still” (1951). And big Arnie? Do not forget that between “The Terminator” (1984) and “Terminator 2: Judgment Day” (1991) this ultimate robot changed sides. In the earlier film, he comes back from the future to stop rebels preventing the machines taking over; in the second, as part of a new generation of robots, his role is to achieve the opposite. He has become a goodie, which startlingly involves a Messianic role, sacrificing his own “life” so that everyone else may live. So is there a God? Metaphorically you can read it how you will.

Friend or foe, however, Hollywood’s robots and computers still think like humans, whether they are playing Gandhi or Hitler. In reality, would they not think quite differently from us—as aliens, in fact? Only one film has ventured down this route and it comes from Russia, Andrei Tarkovsky’s “Solaris” (1972). Based on a novel by a Polish sci-fi writer, Stanislaw Lem, it imagines a world with a mind of its own that influences those who live there—a world where drugs, religion and death itself are all relative and man’s perception is changed by an intelligence not his own. AI? If you believe AI could evolve at all, then an intelligence such as this could well exist. At least, in the movies.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Steven Spielberg's summer hit

AI, phone home

Jun 28th 2001
From The Economist print edition

Many tears, less science

GIVEN what it takes to create brains, the science is really quite incidental in "AI: Artificial Intelligence", which opened in America on June 29th and premieres in Britain on September 21st. Steven Spielberg simply assumes that some day it will be possible to create an affectionate robot. Instead of technological detail and hard science, he delivers a gripping, and emotionally draining, modern fairytale—an updated Pinocchio—about what it means to be human and, above all, what it is to love.

"AI" raises big questions. If God created Adam because He needed to be loved, was that okay? And if God can do it, why shouldn't we use our scientific powers to the same end? Or are designer babies—robot, clone or genomically-manipulated human—just super-toys for us to discard when we get bored or find the relationship too tough to handle?

The real people in "AI" are a lot nastier than the robots and, for that matter, the highly intelligent extraterrestrials who, this being Mr Spielberg, inevitably put in an appearance. Human children are selfish and bullying as they compete for what love the adults have to offer. Some of the grown-ups destroy robots for fun. There is a brief, sickening image of a mass robot grave, evoking Auschwitz or the Balkans. And the scientists who design David, the robot-child at the heart of the film, are utterly heartless corporate executives. No surprises there.

Based on "Supertoys Last All Summer Long", a short story by Brian Aldiss, "AI" was to have been made by Stanley Kubrick, but was taken over by Mr Spielberg after Kubrick died in 1999. The film retains Kubrick's intensity, but lightens his darkness with one of Mr Spielberg's characteristic cuddly creatures, an intelligent electronic teddy bear. There would certainly be a huge market for such a toy—as there would be for Gigolo Joe, a robot who delivers love of a less complicated kind. But "AI" leaves *The Economist* hoping that buying factory-produced children will prove a step too far for the human race.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Writing about the mind

Brainteasers

Jun 28th 2001
From The Economist print edition

Why is popular science so often wrong about the mind?

IT IS surprising quite how many popular books by distinguished scientists—from Roger Penrose to Francis Crick and Gerald Edelman—tackle problems of consciousness and the mind. All of them face a difficult double task: to explain scientific results to the general reader and to use these results to illuminate the deepest mysteries of the human mind. Few really succeed.

Their declared aim is not to debunk the traditional philosophical problems, but to solve them using rigorous science. Among the dangers implicit here is that in trying to synthesise very different areas of knowledge, a thinker can easily neglect subtleties in areas where he or she is not an expert. Another is that the significance of particular scientific discoveries is often difficult to summarise for the non-specialist, and the end result can seem almost bathetic.

The claim, made with something of a flourish, at the end of “Consciousness” (Allen Lane, The Penguin Press; 2000) by Gerald Edelman and Giulio Tononi that “consciousness arises from certain arrangements in the material order of the brain” is something that Thomas Hobbes would have endorsed, and is virtually taken for granted in anglophone philosophy today. Of course, the interest is all in the details of how the brain produces conscious awareness. But these details are often technical, and resist simple summary.

No scientist should have to expect that his work must be intelligible to a non-specialist, though many seem to think it ought to be. One is reminded of Stephen Hawking’s bizarre conjecture at the end of “A Brief History of Time” (Bantam; 1988) that when physicists eventually find an equation which unifies the fundamental physical forces, then it should “be understandable in broad principle by everyone, not just a few scientists”. But why? Certainly, many people know that Einstein’s famous equation is $E=mc^2$; but how many know what the “c” stands for?

The problem for much popular science is how to steer a course between stating the obvious and describing things whose proper understanding requires some specialist knowledge. Lise Eliot’s “Early Intelligence” (Allen Lane, The Penguin Press; 2000) lucidly presents what is known about how the brain develops in early life. But the price of clarity is a certain dullness, at least for the reader looking for answers to the traditional “nature versus nurture” question. The bland answer Ms Eliot suggests is that both inheritance and environment play a role. Once again, the interest is in the complex details, which cannot be captured in any general slogan.

Perhaps we would not need to be reminded of these obvious truths about scientific research, were it not for a widespread assumption that the traditional philosophical problem of consciousness has only become tractable since science got its hands on it. In “The Feeling of What Happens” (Harcourt Brace; 1999), Antonio Damasio, a neuroscientist and author of the earlier “Descartes’ Error” (G.P.Putnam’s Sons; 1994) tells us that “science can now successfully distinguish among several components of the human mind” and offers the distinction between consciousness and conscience as an example. But we did not need science to tell us this; all we needed was a dictionary.

Similarly, in his readable account of the latest research on animal minds, "Wild Minds" (Henry Holt; 2000), Marc Hauser dismisses the questions, "do animals think?" and "are animals conscious?" as unhelpful and "vague". He prefers more "precisely specified" questions, such as "can an animal understand its own beliefs?" But how could an animal understand its own beliefs if it were not a thinker? Surely understanding and believing are kinds of thinking. The first questions are no vaguer than their replacement. There can be an illusion of rigour in these discussions, a spurious sense that now that scientists are involved, the traditional concerns of the philosopher and the non-scientific reflective thinker can be sorted out.

Despite its many merits—most of which lie in the brilliantly lucid descriptions of his own neuropsychological research—Mr Damasio's "The Feeling of What Happens" perpetuates this illusion. Central to his account is a distinction between what he calls "core consciousness" which provides an organism with a sense of self about the "here and now", and "extended consciousness" which gives the organism an "elaborate" sense of self. The distinction is suggestive, but it raises more questions than it answers. Philosophers have long operated with a distinction between consciousness and self-consciousness: to be conscious is for the world to be present to one's mind, while to be self-conscious is to be aware of oneself. There may be a reason to reject this distinction; but Mr Damasio does not give us one. Rather, in assuming that core consciousness involves a "sense of self" he builds the rejection of the traditional distinction into his starting point. The point is not that he is wrong; it is rather that he shows no awareness that he is doing it at all.

There is an especially acute danger in discussions of consciousness of being captivated by an image or picture of the inner life, which can lead at best to dead-ends and at worst to confusion. Mr Damasio describes one problem of consciousness as that of how we get a "movie-in-the-brain". Although he notes the metaphor's limitations, he fails to mention the most obvious one: being conscious of the world is nothing like watching a movie. When we watch a movie, we are aware of something happening in a represented space, and we are aware of the boundaries of that space. Ordinary states of consciousness do not involve awareness of a represented space, or of representations at all; we feel we are immersed in the world which we perceive.

Descartes, often portrayed in these discussions as the source of many misconceptions about the mind, described things much more convincingly: "I am not lodged in my body, like a pilot in his ship, but I am joined to it very closely and indeed so compounded and intermingled with my body, that I form, as it were, a single whole with it." Trying to combine this important insight with the metaphor of the movie in the brain leads nowhere. Whatever Descartes's error was, it did not lie in his description of consciousness; scientists of consciousness may still have much to learn from the antiquated philosophers.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

How we think about memory

Machines in mind

Jun 28th 2001
From The Economist print edition

MANY people fail to remember old acquaintances at one time or another. Their names might be on the tip of one's tongue, only to re-emerge, uselessly, in the middle of the night. Memory is as central to life as it is baffling to our reason. Augustine famously wondered how it was that we could remember the concept of forgetfulness.

We tend to perceive memory as a tool, external to our conscious selves. We associate it with software, say, or a storage system, partly because machines, visible and fabricated by humans, are easier to understand than ourselves. The mind is not and, some claim, could never be transparent to itself.

Metaphors of Memory: A History of Ideas About the Mind
By Douwe Draaisma

Cambridge University Press; 270 pages; $29.95 and £18.95

Buy it at
Amazon.com
Amazon.co.uk

In "Metaphors of Memory", a Dutch historian of psychology, Douwe Draaisma, tells the story of conceptions of memory in different ages by way of metaphors thrown up by the technology of the time. "One might wish that psychology had a better memory," he writes, in a plea for scientists today to pay attention to ideas which preceded the advent of a recognisably modern science of the mind in the 19th century.

There has always been a link, Mr Draaisma observes, "between human memory and the means invented to record knowledge independently of that memory"—from Plato, who compared it to a wax tablet, to Freud, who likened it to a "mystic writing pad" (made out of wax paper and celluloid). To remember could be akin to minting a coin (Hugo of St Victor) or entering a storage space (Augustine). Hooke, in the 17th century, calculated how many ideas could be stored in the brain during a lifetime, borrowing from the mechanistic science of his day. At their birth, photography, the phonograph and cinematography were useful metaphors. Once Alan Turing spoke of a computer's memory, it became possible to apply computer terms to human memory.

Though too wide in scope for specialist use, this is an intellectually sophisticated book, rich in insight and detail. Mr Draaisma offers no theory of memory of his own, but his message is convincing. It is that when thinking about memory, we must realise that the material tools we use to help us remember also become the metaphors we create with our very own minds.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

British and French bestsellers

What the world is reading

Jun 28th 2001
From The Economist print edition

French readers have a taste for philosophy; British readers, for olive oil

THE current French bestseller lists are wonderfully *éclectique*. In fiction, there is everything from blockbuster thrillers to Catherine Millet's "La vie sexuelle de Catherine M.", a novel which has been both praised as high art and derided as upmarket porn. Then there are novels tackling the sticky questions of good and evil ("Le démon et mademoiselle Prym") and faith versus science in the modern world ("L'apparition"). Philosophical themes continue in the non-fiction list, topped this week by Michel Onfray's "Antimanuel de philosophie", a witty take on some of philosophy's perennial debates. Those who like their big issues in small chunks are also enjoying Frédéric Beigbeder's "Dernier inventaire avant liquidation", a survey of France's favourite 20th-century books, handled with Mr Beigbeder's trademark humour from the title on ("The 50 books of the century chosen by you and critiqued by me").

Bestsellers

	FRENCH FICTION	FRENCH NON-FICTION
1	**Dans la rue où vit celle que j'aime** *by Mary Higgins Clark* Murder by the seaside	**Antimanuel de philosophie** *by Michel Onfray* Alternative philosophical lessons
2	**La vie sexuelle de Catherine M.** *by Catherine Millet* Art expert describes her sex life	**Robinson des mers** *by Yves Parlier* Experiences of a French navigator
3	**Céréales killer** *by San-Antonio* Murder to a techno beat	**Services spéciaux, Algérie 1955-1957** *by Général Aussaresses* Military torture during the Algerian war of independence
4	**La Petite Bijou** *by Patrick Modiano* Melancholy cop novel	**Les frères invisibles** *by Ghislaine Ottenheimer and Renaud Lecadre* Freemasonery and its scandals
5	**L'engrenage** *by John Grisham* Blackmail at the highest level	**Dernier inventaire avant liquidation** *by Frédéric Beigbeder* France's 50 favourite books
6	**Meurtres en soutane** *by P.D. James* Bad guys in cassocks	**No logo** *by Naomi Klein* Branding theory
7	**Apprendre à finir** *by Laurent Mauvignier* Breaking up is hard to do	**Latitude zéro** *by Mike Horn* 40,000 kms around the equator
8	**L'apparition** *by Didier Van Cauwelaert* Faith versus science	**Mon Malagar** *by Lucienne Sinzelle* Memoirs of a servant's daughter
9	**Le démon et mademoiselle Prym** *by Paulo Coelho* Fable of good and evil	**Il était minuit cinq à Bhopal** *by Dominique Lapierre and Javier Moro* Chemical disaster in India
10	**Portrait sépia** *by Isabel Allende* Family drama	**Hard** *by Raffaëla Anderson* Porn star bares her soul

	BRITISH FICTION	BRITISH NON-FICTION
1	**How to be Good** *by Nick Hornby* Taming the Angriest Man in Holloway	**Nigella Bites** *by Nigella Lawson* Tasty offerings from the Domestic Goddess
2	**Thief of Time** *by Terry Pratchett* 26th instalment in Discworld series	**Extra Virgin** *by Annie Hawes* Becoming an olive grower in Liguria
3	**Harry Potter and the Goblet of Fire** *by J.K. Rowling* More Harry and more wizardry	**Dazzler: The Autobiography** *by Darren Gough* Cricketer's story
4	**To Hell in a Handcart** *byby Richard Littlejohn* Was it self-defence or murder?	**The Olive Farm** *by Carol Drinkwater* Becoming an olive grower in France
5	**Running in Heels** *by Anna Maxted* Ballet, boyfriends and body image	**Fathers, Sons and Football** *by Colin Shindler* Story of the Summerbee football dynasty
6	**Glue** *by Irvine Welsh* Growing up tough in Auld Reekie	**War Diaries, 1939-1945** *by Field Marshal Lord Alanbrooke* Diaries of Churchill's right-hand man
7	**On Green Dolphin Street** *by Sebastian Faulks* Doomed love affair	**Driven: The Definitive Biography of Nick Faldo** *by Dale Concannon* Golfer's story
8	**He Kills Coppers** *by Jake Arnott* Hardboiled thriller with 1960s London setting	**Henry VIII: King and Court** *by Alison Weir* The king in context
9	**Seven Up** *by Janet Evanovich* Bounty hunter Stephanie Plum in trouble again	**Help Yourself** *by Dave Pelzer* Tips on overcoming adversity
10	**The Blue Nowhere** *by Jeff Deaver* Evil in cyberspace	**Killing Pablo** *by Mark Bowden* Rise and fall of a cocaine baron

Sources: *Livres Hebdo*; Whitaker BookTrack — Descriptions by *The Economist*

In Britain, meanwhile, there is olive oil all over the non-fiction list. It's a staple ingredient for Nigella Lawson, a domestic divinity and celebrity chef, whose latest collection of recipes tops the list. Annie Hawes, in second place, took herself off to the sun-drenched hills of Italy to grow her own olives and write a book about them—as did Carol Drinkwater, just across the border in France. Fiction-wise, it's business as usual, with the requisite holiday mix of thrillers, romance, fantasy—and Harry Potter, with "The Goblet of Fire" still burning bright at number three.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

AIDS in Africa

Don McCullin

Jun 28th 2001
From The Economist print edition

To coincide with the UN's special session on AIDS, Don McCullin's portraits of the pandemic in Africa are on show at the UN General Assembly in New York until August. A book of the exhibition, "Cold Heaven", is published by Christian Aid, $15 and £10.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Wall Street

You need a friend

Jun 28th 2001 | NEW YORK
From The Economist print edition

Wall Street should be buffing up its contacts in Washington

SUDDENLY things are going badly for Wall Street, and they could soon get worse. As the market turns, business has dried up, especially the lucrative underwriting of initial public offerings (IPOs) of shares and advising on mergers and acquisitions. More ominously, in Washington, DC, politicians are sensing a growing appetite to punish somebody for the downturn, and Wall Street may be the ideal scapegoat, just as it has been before.

Worse still, Wall Street's political connections are weaker than they have been for years. During much of the 1990s Alan Greenspan, Robert Rubin and Arthur Levitt, three Wall Streeters with long connections, oversaw the American—and arguably world—economy and markets, often chewing issues over during golfing outings. Mr Greenspan putts on, but otherwise the Bush administration is strikingly lacking in Wall Street contacts.

Wall Street is under fire in Congress for its role in the dotcom bubble. Several investment banks are being investigated for alleged abuses during IPOS, analysts are being criticised for acting as cheerleaders of worthless shares in Internet companies in order to win their firms new underwriting business. The issues, including the conflicts of interest potentially influencing Internet analysts such as Henry Blodget of Merrill Lynch and Mary Meeker of Morgan Stanley, are plainly set out in "The Pied Pipers of Wall Street". Benjamin Cole, a financial journalist, concludes that the Securities and Exchange Commission "has all but lost control of the game". Far-reaching regulatory reform may be needed.

There may be parallels with the 1930s, when, after the 1929 crash, politicians passed many of the Wall-Street-bashing, investor-friendly laws that govern America's markets today. Then, the public was outraged by the collapse of several investment pools that were aggressively marketed to novice investors, the most notable of which was the Goldman Sachs Trading Corporation. The investment bank that set up this fund made a fortune, but its reputation was damaged for decades.

It remains to be seen how badly Goldman will suffer in the clean-up after the dotcom bubble, in which it played its part. Strikingly, it became a public company at the height of the stockmarket excesses, ending more than 130 years as a partnership. Might the change to a public company have made it more focused on maximising its short-term value at the expense of its long-term value?

The Goldman story features in "The Last Partnerships", Charles Geisst's excellent follow-up to his earlier "Wall Street: A History". The author, a finance professor at Manhattan College, shows how Wall Street, after being chastened in the early 1930s, gradually turned aggressive again. The pressures of an expanding consumer society made their business structures increasingly obsolete, particularly their need to have more capital and to pay employees well without the long wait of becoming a partner. Indeed, most partnerships gave up before Goldman.

When the going gets tough, what better way to lift the spirits than with tales of heroes and villains past? There are plenty of both in "Wall Street People" by Charles Ellis of Greenwich Associates, a money management consultant. Many of the profiles have been published before and are rather old, though no worse for that. Among other surprises, it seems there was a time when George Soros was "reclusive" and "something of a mystery man".

The Pied Pipers of Wall Street: How Analysts Sell You Down the River.
By Benjamin M. Cole

Bloomberg; 240 pages; $26.95 and £19.95

Buy it at
Amazon.com
Amazon.co.uk

The Last Partnerships: Inside the Great Wall Street Money Dynasties.
By Charles Geisst

McGraw-Hill; 352 pages; $29.95 and £21.99

Buy it at
Amazon.com
Amazon.co.uk

Wall Street People: True Stories of Today's Masters and Moguls.
By James R. Vertin and Charles D. Ellis

John Wiley; 360 pages; $39.95 and £28.95

Buy it at
Amazon.com
Amazon.co.uk

Mr Ellis could usefully have provided more detail than his brief introductory notes to each profile, to help any readers not inside the Wall Street club. The new material he provides is generally fascinating—if only there were more of it. The colourful preface features a delightful cameo appearance by Helen Mann, of *The Economist*, and a description of a bored Ned Johnson, boss of the huge Fidelity mutual fund firm, floating wine glasses in the lighted pool in the middle of New York's Four Seasons restaurant. There are new profiles of Roy Neuberger, a brilliant investor who is still turning up at the office aged 98, and of John Weinberg and John Whitehead, the co-bosses of Goldman Sachs during its most admirable years.

On the desk of Mr Whitehead, who also trod the familiar path from lower Manhattan to Washington, serving as deputy secretary of state, sits a sign bearing the word "Excellence". This is something Wall Street could have used more of in the past and may soon need in abundance if it is to fight off those meddling politicians.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

New American fiction

Bloody fingers

Jun 28th 2001
From The Economist print edition

The Fourth Hand.
By John Irving.
Random House; 316 pages; $26.95. Bloomsbury; £16.99

ALONG with other heavy-hitters such as John Updike and Norman Mailer, John Irving has made much public hay out of decrying Tom Wolfe's last novel "A Man in Full" for not being real literature. Accordingly, he's marked himself as fair game.

If such distinctions can be made, then Mr Irving's twelfth book, "The Fourth Hand," is no more real literature than the *croissan'wich* is haute cuisine.

Mr Irving's earlier work may not have been especially lofty either, but his novels from the 1970s—"The Water-Method Man" and "The 158-Pound Marriage", or even "The World According to Garp" which established his reputation—had a zany ebullience that was charmingly all his own. But fame, age or both appear to have taken their toll.

Indeed, no editorialising is required to make the plot of the "The Fourth Hand" sound inane: a slick television news anchor, Patrick Wallingford, is filming a package about an Indian circus when a lion eats his left hand. Meanwhile, a total stranger in Wisconsin, Mrs Clausen, sees a clip of it on TV, and writes to promise Wallingford her husband's hand for transplant in the event of her spouse's death. When the husband does indeed die in a freak accident, Mrs Clausen flies to meet Wallingford, whom she promptly seduces with an eye to childbearing. The pregnancy takes more successfully than the husband's transplanted hand, which is eventually rejected. After a fritter of other affairs, Wallingford throws himself at Mrs Clausen and finds true love.

The most that one can derive from this uncannily empty tale runs to isn't life weird? Or as Mr Irving writes so trenchantly, "Destiny is not imaginable, except in dreams or to those in love." His parallel send-up of television news coverage, including the bathetic voyeurism surrounding the death of John F. Kennedy, Jr. in 1999, is more chidingly adjectival than properly parodic: "The self-seriousness of the commentator was perfectly matched to the speciousness of his principal assertion." Mr Irving's characters here lack the engaging quirks of earlier creations, for he merely confirms the stereotype of newscasters as boring and not very bright.

Whether or not "The Fourth Hand" was meant as real literature, it also falls down as entertainment. A novel this trivial should at least be a little fun.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

American dance

The dark side

Jun 28th 2001
From The Economist print edition

WHEN the Ballet Theatre premiered the irrepressible sailors-ashore ballet “Fancy Free” in New York in the spring of 1944, the audience demanded two dozen curtain calls and the critics fell over each other to herald, at last, the arrival of American genius in the previously Russian-dominated art form.

Dance with Demons: The Life of Jerome Robbins
By Greg Lawrence

G.P.Putnam’s Sons; 622 pages; $32.95

Buy it at
Amazon.com
Amazon.co.uk

Both of the young men responsible for this sensation had taken part in the performance: Leonard Bernstein, the composer, from the podium, and Jerome Robbins, the choreographer, who appeared on stage as one of the three sailors. As the uproarious applause continued, the 26-year-old Robbins remained in the wings, stunned, glassy-eyed and gasping for breath. Overnight, his life and prospects had been transformed.

Robbins went on to conquer Broadway with such hits as “On the Town”, “The King and I” and “West Side Story”, while for the ballet he created innovative, controversial classics such as “The Cage”, “The Concert” and “Dances at a Gathering”. Until his mid-30s he also maintained a career as a principal dancer, first with the Ballet Theatre, then with City Ballet. He was a complex, driven man, full of energy and intellectual curiosity, infectious high spirits, a wicked sense of humour and charm. He was showered with prizes, sought after by society hostesses and acknowledged as a genius within his own profession.

Unsurprisingly, there was a reverse side to his dazzling success story. Greg Lawrence focuses on this dark shadow in “Dance with Demons”. Mr Lawrence’s method is anecdotal, chronological, meticulous. An array of eyewitnesses recounts and comments on each step of Robbins’s development. Yet a clear overall picture never really emerges, and the ballets themselves get lost in the painstaking narrative.

Mr Lawrence makes much of Robbins’s Jewish background and ambiguous sexuality, suggesting that there may lie the keys to his constitutional insecurity, his legendary mercurial temper, his wariness of intimate relationships and even his craven capitulation before the House Un-American Activities Committee in 1953, when he named associates. This seems plausible enough. However, left-leaning Jewish homosexuals and bisexuals were hardly a rarity in the New York performing-arts scene. What caused Robbins to feel so vulnerable? Mr Lawrence points to his difficult relations with his parents; but, again, most parents of a male dancer are likely to be sceptical about their son’s choice of profession, at least at first.

The interminable accounts of Robbins’s sadistic perfectionism, which could turn rehearsals into a purgatorial ordeal, are no doubt true, but it should be noted that few dancers actually walked out on productions and his successes by far outnumbered his failures. More fundamentally, dancers are the only means through which a choreographer’s vision can be realised. If Robbins had been the only choreographer to play favourites, single out whipping boys, plague his dancers with multiple versions right up to opening night, whittle their egos into his own image and drive them beyond exhaustion, then the dancing world would not be the wellspring of lurid tales that have long enthralled writers and readers the world over. The heritage of inspired masterpieces would also be far leaner.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

African memoir

Bus rides

Jun 28th 2001
From The Economist print edition

LIKE a mounted cavalryman taking on a tank, Ryszard Kapuscinski charged into Africa waving his Polish sword, carrying less baggage than rival commentators. Since his own nation had been comprehensively colonised over the centuries, he was burdened with no post-colonial guilt, no anxiety to compensate for past wrongs and quite a different perspective on the cold war, whose skirmishes were then beginning to be fought out across the continent.

The Shadow of the Sun
By Ryszard Kapuscinski

Knopf; 325 pages; $25. Allen Lane, The Penguin Press; £18.99

Buy it at
Amazon.com
Amazon.co.uk

Mr Kapuscinski went to Africa as a journalist, but goodness knows what the Polish Press Agency made of his copy, since his true vocation is that of a Literary Traveller, a dispenser of fine sensibilities and finer prose. In Africa, he says, "I travelled extensively, avoiding official routes, palaces, important personages, and high-level politics." This is a bit odd from a man whose previous excellent books include one about Emperor Haile Selassie and another about the Shah of Iran. Certainly, though, he often travelled free of the press pack, partly because his expense account was much smaller than his colleagues', partly (as he must have noticed, but does not here remark) because other journalists and presumably many officials assumed, perhaps wrongly, that he was a spy.

These gleanings from old notebooks tell how Mr Kapuscinski rumbled in buses and cattle trucks through the landscapes where most Africans live. Lodging in a Lagos slum in 1967, he conveys the misery, terror and superstition on which the packed inhabitants survived. Ambushed in a convoy on the Ugandan side of the Sudanese border, he hears the shots, sees the dead soldiers, but cannot identify the enemy in the tall elephant grass.

As literature, "The Shadow of the Sun" is in its way magnificent. As analysis, it can be strange. Mr Kapuscinski's account of Idi Amin's rule is inaccurate and his history of Rwanda is botched. Mysteriously, he travels from Djibouti to Gondar by way of Ndjamena: two sides of a huge triangle. Mr Kapuscinski tells it as it felt, rather than as it was, describing—sometimes, it seems, distastefully relishing—whatever is bizarre, humiliating, disgusting, exotic.

In his foreword he observes: "In reality, except as a geographical appellation, Africa does not exist." There follows a torrent of heroic generalisations, less about Africa than about Mr Kapuscinski's Africa—not the same place at all. The one feeling he shares with other would-be-sympathetic Africa hands is disappointment. His first foray was to Ghana, on the eve of independence in 1957, when hope was unlimited and the theft of public funds a slander put about by the departing imperialists. Things got worse and Mr Kapuscinski watched the degradation. Yet he never refers to the two great powers that now dominate the continent, the World Bank and the International Monetary Fund. Instead he creates an Africa of his own. It is a fascinating place. Whether it ever existed as he tells it is another matter altogether.

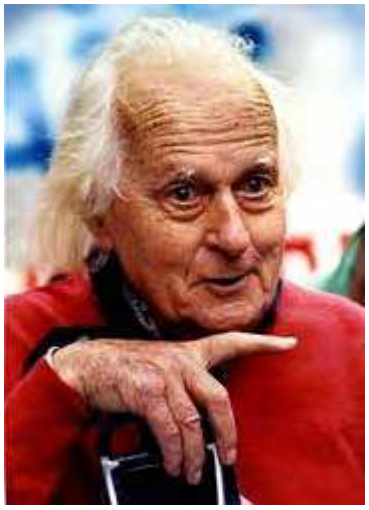
Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

René Dumont

Jun 28th 2001
From The Economist print edition

René Dumont, a Green for France, a Cassandra for Africa, died on June 18th, aged 97

Reuters



EVERGREEN is the word that comes to mind when describing René Dumont. If not quite a son of the soil, he was a grandson of it, and his concern for the land led him to become, first, an agronomist and in time an environmentalist, indeed the first environmentalist to run for the French presidency, in 1974. He captured only 1.3% of the vote, but can be credited nonetheless with having established the green movement in France. He was also passionately concerned with the poor world, with its exploitation (as he saw it) by the rich world, and with what some regarded as naive policies—call them green, if you like—to lift the poor out of poverty. And throughout his long life he remained unfadingly energetic, enthusiastic and vigorous. Just a week before his death he was throwing his weight behind the candidacy of the relatively little known Alain Lipietz to lead the French Greens in next year's presidential election. To general surprise, Mr Lipietz, a former Maoist, duly won the party's primary on June 21st.

Yet no simple description could do justice to Mr Dumont: even his greenery seemed to be called into question by his taste for red pullovers, and his sternest critics, though they might deride his utopianism, could hardly call him callow. He was, after all, a professor of agriculture who was indubitably expert in his field. Moreover, he had travelled widely before and after the second world war—in at least 80 countries in Asia, Africa and Latin America—and had met many of their leaders. Unlike some of the well-intentioned Europeans who gave their advice so freely, and often disastrously, in the post-colonial world, Mr Dumont could speak with authority: he knew his stuff.

Into the savannahs

That became evident in the book for which Mr Dumont is best known, at least outside France. "L'Afrique Noire est Mal Partie"—published in English as "False Start in Africa"—came out in 1962, only two years after France had, with mixed emotions, given independence to most of its African colonies. The book was thus based on a brief experience of self-government (in so far as the term described the new state of affairs). Moreover, it was almost entirely about French-speaking Africa, and therefore excluded most of the people of the continent. Yet it was at once recognised as a brilliantly perceptive analysis.

It was also prescient. A glance at some of the chapter headings shows how many of the issues identified as *problématique* by Mr Dumont in 1962 remain difficult today. "Aid often wasted", "Too many tractors and coffee plants, not enough oil palms and food crops", "Independence is not always decolonisation", "The elites—a modern version of Louis XVI's court", "Tie and jacket, the new symbols", "If your sister goes to school, you won't have anything to eat", "Servitude of women", and so on.

Mr Dumont, however, was not only critical of Africans. His sympathies, born of his childhood experiences among the peasantry in northern France during the first world war, were always with the underdog, and he did not spare the colonial authorities for their role in Africa's misfortunes. He bemoaned slavery, colonisation and subsequent exploitation, and vehemently argued that underdevelopment could be conquered in 20 years. No Afro-pessimist, he.

Mr Dumont could, however, be apocalyptic—about population and famine, for instance. This was just one consequence of his tendency to overdo things, a characteristic he acknowledged when he remarked, "I prefer the sins of excess to the sins of omission." Coupled with his refusal to compromise, however, it reduced his effectiveness. As *Le Monde* put it, Mr Dumont was "too green for the socialists, too red for the greens, too empirical for the Marxists, too statist for the liberals, too agricultural for the economists, too socio-economic for the agriculturalists, too pragmatic for the scientists, too impassioned for the

academics, too moderate for the militants, too demanding for the third-worlders, too non-conformist for the authorities, too reasonable for the dreamers."

No wonder, perhaps, that so much of what he said about Africa went unheeded. Though industry could never provide enough jobs to satisfy the demand for them, many African governments considered it the route to modernity and would thus neglect agriculture, holding down the price of food, and therefore the incomes of farmers, to pacify the politically conscious urban population. The result was that the countryside became impoverished and in many places farms and plantations fell into disuse. In Nigeria, for instance, the pipelines that were once used to pump palm oil to the coast for export were, by the 1990s, being used to bring in imports. In Angola, Congo, Nigeria and Sierra Leone, natural resources such as oil and diamonds, instead of delivering riches, have brought war and corruption. Too many African rulers still aspire, not perhaps to ties and jackets, but to Rolex watches and Mercedes cars.

Yet, if Africa was a disappointment, at least in France Mr Dumont lived to see the Greens join the government in coalition with the Socialists. True, the Communists, whom he loathed, were also there, but it is reasonable to think that greenery will outlive Marxism—in France and in Africa.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Overview

Jun 28th 2001
From The Economist print edition

America's Federal Reserve cut interest rates by another quarter-point, to 3.75%. Wall Street, which had been hoping for a sixth half-point cut, was disappointed. The Dow fell by 2% over the week. The past week's economic statistics gave mixed signals. Exports dropped by 2% in both March and April, largely because of a decline in high-tech investment abroad; the merchandise-trade deficit widened to $458 billion in the 12 months to April. However, the Conference Board's index of consumer confidence was higher than expected in June.

Concerns over inflation in the **euro area** eased. Preliminary data showed that German consumer-price inflation fell to 3.1% in the year to June, from 3.5% in May; wage growth slowed to 1.4% in April, a real pay cut of 1.5%. Some economists fear that **Germany** is on the brink of recession. The IFO index of business confidence dropped more sharply than expected in May, and the institute has cut its forecast of GDP growth this year to only 1.2%, well below the German government's forecast of 2%.

The euro area's current-account deficit narrowed to $30 billion in the 12 months to April. **Britain**'s deficit in the first quarter was its smallest since 1998, thanks to record investment income.

There was more bad news from **Japan**, where retail sales in large stores fell by 3.2% in May, the 37th consecutive monthly fall. The yen fell against the dollar, touching almost ¥125 on one point.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Output, demand and jobs

Jun 28th 2001
From The Economist print edition

% change at annual rate

	GDP		The Economist poll GDP forecasts		Industrial production	Retail sales (volume)	Unemployment % rate	
	1 qtr	1 year	2001	2002	1 year	1 year	latest	year ago
Australia	+ 4.3	+ 2.1 Q1	+ 2.1	+ 3.9	+ 3.1 Q4*	+ 3.0 Q1	6.9 May	6.5
Austria	+ 1.7	+ 2.6 Q4	+ 2.1	+ 2.4	- 5.0 Mar*	- 1.1 Feb	3.7 Apr	3.7
Belgium	+ 1.8	+ 2.4 Q1	+ 2.5	+ 2.6	- 4.1 Apr*	+ 5.2 Mar	10.0 May*	10.1
Britain	+ 1.7	+ 2.7 Q1	+ 2.2	+ 2.7	- 0.8 Apr	+ 6.4 May	5.0 Apr‡	5.7
Canada	+ 2.5	+ 2.6 Q1†	+ 2.2	+ 3.1	+ 0.7 Mar	+ 3.0 Mar	7.0 May	6.6
Denmark	+ 4.9	+ 1.1 Q4	+ 1.8	+ 2.2	+ 1.7 Apr	+ 0.2 Apr	5.2 May	5.4
France	+ 2.0	+ 2.7 Q1	+ 2.4	+ 2.5	+ 1.9 Apr	- 0.3 Apr	8.7 Apr	9.9
Germany	+ 1.5	+ 1.6 Q1	+ 1.6	+ 2.3	+ 1.0 Apr	- 0.7 Apr	9.3 May	9.6
Italy	+ 2.8	+ 2.4 Q1	+ 2.1	+ 2.3	+ 2.6 Apr	- 0.8 Apr	9.6 Apr	10.7
Japan	- 0.8	- 0.1 Q1	+ 0.5	+ 1.3	- 3.9 May	+ 0.1 Apr	4.8 Apr	4.8
Netherlands	+ 0.2	+ 2.0 Q1	+ 2.6	+ 2.9	+ 0.2 Apr	- 3.1 Feb	1.9 May§	2.8
Spain	+ 4.1	+ 3.3 Q1	+ 2.8	+ 3.0	+ 0.2 Apr	na	13.1 Apr	14.4
Sweden	+ 2.4	+ 2.3 Q1	+ 2.4	+ 2.9	- 1.4 Apr	+ 2.3 Apr	3.5 May*	4.1
Switzerland	+ 7.4	+ 2.5 Q1	+ 1.9	+ 2.1	+ 5.1 Q1*	+ 2.2 Mar	1.7 May*	1.9
United States	+ 1.3	+ 2.5 Q1	+ 1.6	+ 2.9	- 2.8 May	+ 2.5 Apr	4.4 May	4.1
Euro area	+ 2.0	+ 2.5 Q1	+ 2.2	+ 2.5	+ 1.6 Apr	+ 1.6 Mar	8.3 Apr	9.0
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	nil	+ 3.4 Q1	na	na	- 0.7 Apr	+ 5.5 Feb	11.3 May*	11.9
Greece	na	+ 2.5 2000	na	na	+ 8.5 Feb*	+ 5.1 Mar	na	na
Iceland	na	+ 3.6 2000	na	na	+ 2.5 2000	na	1.5 Apr	1.5
Ireland	na	+11.0 Q3	na	na	+17.0 Apr*	+ 1.6 Mar	3.7 May	4.2
Luxembourg	na	+ 8.5 2000	na	na	+ 0.2 Feb*	+ 6.7 Mar	2.5 Apr	2.6
New Zealand	+ 2.2	+ 1.6 Q4	na	na	+ 0.9 Q4*	+ 1.7 Q1	5.4 Q1	6.4
Norway	+ 0.9	+ 0.3 Q1	na	na	+ 1.1 Apr	- 1.0 Apr	3.7 Q1	3.9
Portugal	+ 2.2	+ 3.4 Q4	na	na	+ 4.5 Apr*	+ 5.3 Mar	4.2 Q1	4.4

*Not seasonally adjusted. †New series. ‡Feb-Apr; claimant count rate 3.2% in May. §Mar-May

Text refers only to the first 16 countries listed

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Prices and wages

Jun 28th 2001
From The Economist print edition

% change at annual rate

	Consumer prices*			The Economist poll consumer prices forecast		Producer prices*			Wages/earnings		
	1 year		year ago	2001	2002	1 year		year ago	1 year		year ago
Australia	+ 6.0	Q1	+ 2.8	+ 3.6	+ 2.3	+ 5.2	Q1	+ 5.6	+ 5.6	Q1	+ 2.9
Austria	+ 3.4	May	+ 1.8	+ 1.9	+ 1.4	+ 3.1	May	+ 2.7	+ 2.6	Apr	+ 2.0
Belgium	+ 3.1	May	+ 2.2	+ 2.1	+ 1.8	+ 4.7	Apr	+ 7.5	+ 1.9	Q1	+ 3.3
Britain	+ 2.1	May	+ 3.1	+ 2.0	+ 2.3	+ 0.6	May	+ 2.5	+ 5.2	Apr	+ 5.1
Canada	+ 3.9	May	+ 2.4	+ 2.4	+ 2.1	+ 2.7	Apr	+ 5.7	+ 1.3	Mar	+ 3.0
Denmark	+ 2.7	May	+ 3.3	+ 2.3	+ 2.2	+ 2.9	May	+ 6.4	+ 3.8	Q4	+ 4.1
France	+ 2.3	May	+ 1.5	+ 1.5	+ 1.5	+ 2.9	Apr	+ 3.5	+ 5.0	Q4	+ 3.4
Germany	+ 3.1	June	+ 1.9	+ 2.3	+ 1.5	+ 4.0	May	+ 4.9	+ 1.4	Apr*	+ 2.3
Italy	+ 3.0	June	+ 2.7	+ 2.5	+ 1.9	+ 4.3	Apr	+ 5.3	+ 2.7	May*	+ 2.3
Japan	− 0.4	Apr	− 0.8	− 0.4	− 0.3	+ 0.9	May	− 0.6	+ 0.2	Apr	+ 2.2
Netherlands	+ 4.9	May	+ 2.4	+ 4.0	+ 2.3	+ 5.6	Apr	+ 7.3	+ 3.3	Apr	+ 3.4
Spain	+ 4.2	May	+ 3.2	+ 3.3	+ 2.6	+ 2.8	Apr	+ 5.7	+ 2.2	Q4	+ 2.4
Sweden	+ 3.0	May	+ 1.4	+ 1.9	+ 1.7	+ 3.3	Apr	+ 3.3	+ 2.1	Mar*	+ 3.4
Switzerland	+ 1.8	May	+ 1.6	+ 1.2	+ 1.2	+ 0.4	May	+ 3.0	+ 1.3	2000	+ 0.3
United States	+ 3.6	May	+ 3.2	+ 2.9	+ 2.4	+ 3.8	May	+ 3.7	+ 4.3	May	+ 3.6
Euro area	+ 3.4	May	+ 1.9	+ 2.3	+ 1.7	+ 4.1	Apr	+ 4.7	+ 2.4	Q4	+ 2.3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 3.4	May	+ 2.9	na	na	+ 3.0	May	+ 8.6	+ 5.0	Q1*	+ 3.5
Greece	+ 3.6	May	+ 2.9	na	na	+ 5.1	Apr	+ 7.0	na		na
Iceland	+ 6.8	Jun	+ 5.5	na	na	+ 5.7	May	+ 3.6	+ 9.2	Apr	+ 5.3
Ireland	+ 5.4	May	+ 5.2	na	na	+ 2.9	Apr	+ 5.4	+ 6.4	Q4*	+ 7.3
Luxembourg	+ 3.3	May	+ 2.5	na	na	+ 2.5	Apr	+ 5.5	+ 7.2	Mar*	+ 4.2
New Zealand	+ 3.1	Q1	+ 1.5	na	na	+ 7.8	Q1	+ 4.9	+ 1.8	Q1	+ 1.4
Norway	+ 4.3	May	+ 2.8	na	na	+ 4.6	May	+ 8.0	+ 4.4	Q1*	+ 4.1
Portugal	+ 4.8	May	+ 2.6	na	na	+ 3.2	Apr	+17.7	+ 2.2	Feb*	+ 2.8

*Not seasonally adjusted.

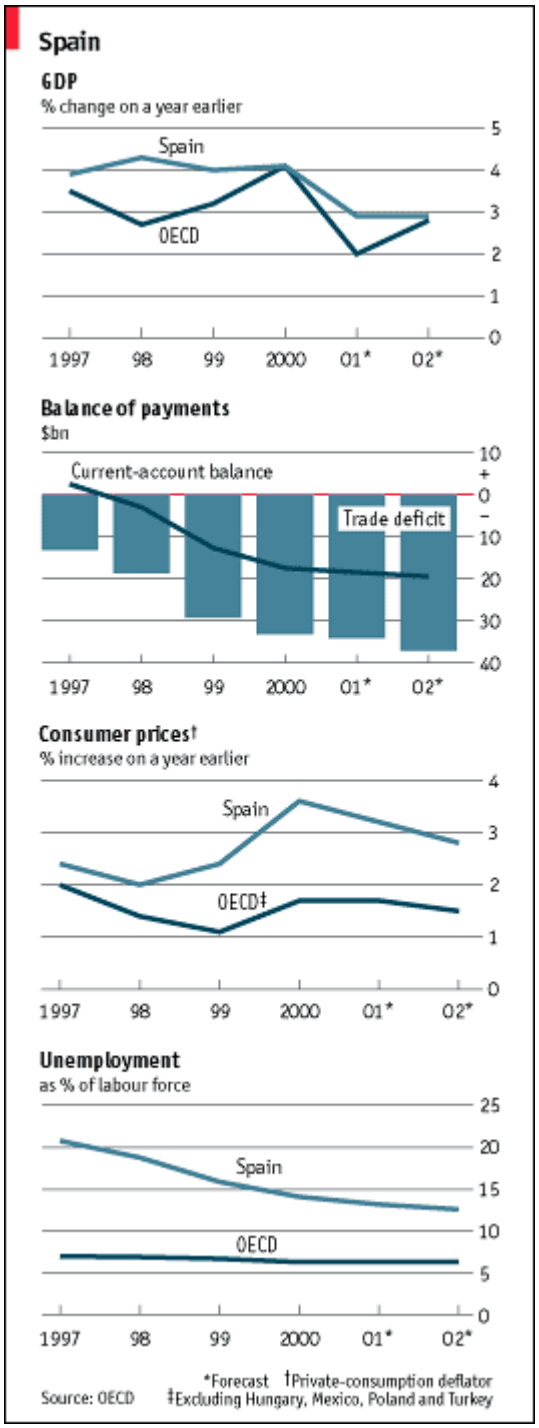
Text refers only to the first 16 countries listed

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Spain

Jun 28th 2001
From The Economist print edition

Time for a siesta? According to the OECD's latest country report, Spain has closed its output gap, after four years of strong growth. Recent structural reforms in Spain's product and labour markets have boosted employment, but have yet to increase productivity. Thus, as unemployment has dropped to 13%, from more than 20% in 1997, higher wage demands are being translated into higher prices. At close to 4%, Spanish inflation is also among the highest in the euro area. Inflation is, however, forecast to fall to 2.8% next year as growth slows in the wake of the global slowdown. But the OECD reckons that Spain still has plenty more labour-market reforming to do, particularly in the areas of wage bargaining and excessive employment protection, if it wishes to increase its potential growth rate.



Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

The Economist metals index

Jun 28th 2001
From The Economist print edition

Our dollar metals index has fallen by 17% since September, as the world economic slowdown has dampened demand. Brook Hunt, a consultancy, expects demand for aluminium to fall by 2% this year, after 4% growth in 2000. Copper demand is forecast to be flat, after a 6% rise last year.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

The Economist commodity price index

Jun 28th 2001
From The Economist print edition

1995=100

	Jun 19th	Jun 26th*	% change on one month	% change on one year
Dollar index				
All items	69.4	68.2	– 3.1	– 7.0
Food	67.9	66.6	– 1.1	– 7.4
Industrials				
All	71.6	70.4	– 5.7	– 6.6
Nfa†	70.6	69.4	– 5.9	+ 0.3
Metals	72.4	71.3	– 5.5	–11.7
Sterling index				
All items	78.1	76.0	– 3.0	– 1.6
Euro index				
All items	106.5	104.1	– 4.0	+ 1.8
Yen index				
All items	90.8	89.9	– 0.1	+ 9.1
Gold				
$ per oz	274.45	274.45	– 0.0	– 3.3
West Texas Intermediate				
$ per barrel	27.32	26.69	– 7.4	–16.7

* Provisional. † Non-food agriculturals.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Stockmarkets

Jun 28th 2001
From The Economist print edition

Market indices

	Jun 27th	2001 high	2001 low	% change on one week	% change on record high	% change on Dec 31st 2000 in local currency	% change on Dec 31st 2000 in $ terms
Australia (All Ordinaries)	3,347.5	3,370.7	3,094.3	nil	- 0.7	+ 6.1	- 1.2
Austria (ATX)	1,224.7	1,244.9	1,052.2	- 0.6	-29.5	+14.1	+ 4.5
Belgium (Bel 20)	2,846.7	3,030.4	2,591.6	+ 0.2	-22.7	- 5.9	-13.8
Britain (FTSE 100)	5,607.9	6,334.5	5,314.8	- 1.6	-19.1	- 9.9	-14.7
Canada (Toronto Composite)	7,530.6	9,348.4	7,415.5	- 1.9	-33.9	-15.7	-16.5
Denmark (Copenhagen SE)	905.9**	1,002.1	818.3	nil	-12.8	- 0.1	- 8.3
France (SBF 250)	3,248.5	3,820.2	3,107.9	- 2.1	-26.0	-13.9	-21.1
(CAC 40)	5,057.7	5,998.5	4,824.8	- 2.2	-26.9	-14.7	-21.8
Germany (Xetra DAX)	5,833.1	6,795.1	5,388.0	- 0.7	-27.7	- 9.3	-17.0
Italy (BCI)	1,608.8	1,948.4	1,601.2	nil	-26.3	-16.1	-23.1
Japan (Nikkei 225)	12,829.0	14,529.4	11,819.7	+ 1.2	-67.0	- 6.9	-14.3
(Topix)	1,288.4	1,441.0	1,162.0	+ 2.5	-55.3	+ 0.4	- 7.6
Netherlands (AEX)	558.6	642.3	518.3	+ 1.2	-20.4	-12.4	-19.8
Spain (Madrid SE)	851.2	963.9	818.6	- 2.2	-25.7	- 3.4	-11.5
Sweden (Affarsvarlden Gen)	231.2	292.7	217.2	+ 1.2	-42.2	-16.6	-26.8
Switzerland (Swiss Market)	6,997.4	8,135.4	6,574.0	- 3.1	-16.8	-14.0	-21.2
United States (DJIA)	10,434.8	11,337.9	9,389.5	- 2.0	-11.0	- 3.3	- 3.3
(S&P 500)	1,211.1	1,373.7	1,103.3	- 1.0	-20.7	- 8.3	- 8.3
(Nasdaq Comp)	2,074.7	2,859.2	1,638.8	+ 2.1	-58.9	-16.0	-16.0
Europe (FTSE Eurotop 300) *	1,363.4	1,545.5	1,279.0	- 1.2	-20.0	-11.1	-18.6
Euro area (FTSE Ebloc 100) *	1,208.3	1,404.1	1,143.9	- 1.2	-22.1	-13.2	-20.5
World (MSCI) †	1,074.7	1,249.2	1,014.6	- 0.7	-25.8	na	-12.0
World bond market (Salomon) ‡	429.3	447.8	425.0	+ 0.5	- 6.7	na	- 3.3

*In euro terms. †Morgan Stanley Capital International Index includes individual markets listed above plus eight others, in dollar terms. ‡Salomon Smith Barney World Government Bond Index, total return, in dollar terms. **June 14th. Discontinued. New index to start July 2nd.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Trade, exchange rates and budgets

Jun 28th 2001
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		The Economist poll % of GDP, forecast 2001	2002	Exchange rate trade-weighted† Jun 27th	year ago	Currency units per $ Jun 27th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2001‡
Australia	− 2.6	Apr	− 12.9	Q1	− 2.4	− 2.5	73.4	77.9	1.93	1.66	2.73	1.66	1.56	0.1
Austria	− 5.5	Mar	− 4.5	Apr	− 2.5	− 2.4	99.9	100.0	16.0	14.6	22.6	13.8	12.9	-0.6
Belgium	+ 12.5	Apr	+ 11.6	Dec	+ 4.1	+ 4.3	98.3	99.0	46.9	42.6	66.3	40.3	37.8	0.7
Britain	− 44.2	Apr	− 19.2	Q1	− 2.0	− 2.1	107.1	105.1	0.71	0.66	–	0.61	0.57	1.2
Canada	+ 45.8	Apr	+ 22.2	Q1	+ 1.5	+ 1.1	79.7	79.7	1.52	1.48	2.14	1.30	1.22	2.6
Denmark	+ 6.1	Apr	+ 3.9	Apr	+ 1.4	+ 1.5	101.4	100.8	8.66	7.88	12.2	7.45	6.98	2.9
France	+ 0.5	Apr	+ 21.3	Apr	+ 1.8	+ 1.8	100.8	101.7	7.63	6.93	10.8	6.56	6.15	-0.5
Germany	+ 54.4	Apr	− 21.3	Apr	− 1.2	− 0.9	97.7	98.4	2.27	2.07	3.22	1.96	1.83	-1.7
Italy	+ 2.2	Apr	− 5.9	Mar	− 0.3	nil	72.0	72.6	2,252	2,047	3,183	1,936	1,815	-1.3
Japan	+100.3	Apr	+106.4	Apr	+ 2.2	+ 2.2	137.8	155.4	124	106	175	107	–	-6.3
Netherlands	+ 16.5	Mar	+ 16.0	Q1	+ 3.7	+ 3.8	97.1	97.8	2.56	2.33	3.62	2.20	2.07	1.3
Spain	− 39.1	Mar	− 16.7	Mar	− 2.9	− 2.6	73.7	74.2	193	176	274	166	156	nil
Sweden	+ 12.9	May	+ 5.5	Apr	+ 2.2	+ 2.2	74.9	83.8	10.74	8.85	15.2	9.24	8.66	3.6
Switzerland	− 0.1	May	+ 31.1	Q4	+11.8	+11.4	107.6	106.1	1.77	1.64	2.50	1.52	1.43	na
United States	−458.2	Apr	−449.3	Q1	− 4.2	− 4.0	120.4	109.4	–	–	1.41	0.86	0.81	2.1
Euro area	− 6.8	Apr	− 30.0	Apr	− 0.3	− 0.2	77.0	79.7	1.16	1.06	1.64	–	0.94	-0.6
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 13.7	Apr	+ 9.5	Apr	na	na	77.5	77.1	6.91	6.29	9.77	5.94	5.57	5.3
Greece	− 7.5	Jan	− 7.7	Jan	na	na	57.1	58.0	396	356	560	341	319	nil
Iceland	− 0.4	Apr	− 0.9	Q4	na	na	na	na	103	76.9	146	88.6	83.0	2.4
Ireland	+ 27.6	Mar	− 0.7	Q4	na	na	86.1	87.6	0.92	0.83	1.29	0.79	0.74	4.5
Luxembourg	− 2.4	Mar	+ 1.6	Q4	na	na	98.3	99.0	46.9	42.6	66.3	40.3	37.8	3.6
New Zealand	− 0.3	Apr	− 2.3	Q1	na	na	79.9	81.1	2.41	2.15	3.41	2.07	1.94	1.0
Norway	+ 28.1	May	+ 24.9	Mar	na	na	96.2	92.4	9.19	8.64	13.0	7.90	7.41	15.3
Portugal	− 10.9	Mar	− 10.1	Mar	na	na	88.8	89.2	233	212	330	200	188	-1.2

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †1990=100, Bank of England. ‡OECD estimate.

Text refers only to the first 16 countries listed

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Money and interest rates

Jun 28th 2001
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Jun 27th 2001)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+13.5	+ 7.0	Apr	4.94	6.27	5.16	5.92	6.25	7.43
Britain	+ 6.7	+ 7.4	May	5.19	6.13	5.32	5.14	5.22	6.61
Canada	+12.7	+ 6.2	May	4.26	5.55	4.73	5.71	5.95	7.18
Denmark	+ 1.5	- 3.5	Apr	4.80	5.09	4.69	5.20	5.64	7.16
Japan	+ 7.0	+ 2.9	May	0.01	0.05	0.03	1.09	1.68	1.28‡
Sweden	+ 5.9	- 1.4	May	4.31	3.92	4.87	5.28	5.19	5.61
Switzerland	- 1.2	+ 2.2	May	3.25	3.36	3.27	3.29	3.96	4.04
United States	+ 1.0	+10.9	May	3.52	6.58	4.11	5.23	6.11	7.03
Euro area†	+ 1.8	+ 5.2	Apr	4.44	4.71	4.21	4.90	5.16	5.75

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. ‡ New series. Benchmarks: US 30-year 5.63%, Japan No.232 1.14%. Central bank rates: US fed funds 3.75%, ECB refinancing 4.50%, BOJ overnight call 0.01%, BOE repo 5.25%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, OM Fixed Income Exchange, Warburg Dillon Read, ORI-WEFA, Westpac, Thomson Financial Datastream. Rates cannot be construed as banks' offers.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Overview

Jun 28th 2001
From The Economist print edition

Brazil's current-account deficit widened by more than expected, to 4.8% of GDP in the year to May. Meanwhile, **South Africa** reported a current-account surplus in the first quarter equivalent to 0.7% of GDP.

Russia's GDP growth slowed to 4.9% in the year to the first quarter, down from average growth of 8.3% in 2000. **Poland**'s growth slowed to 2.3%, down from 4.1% in 2000.

Taiwan's stockmarket shed 4.1% as tech shares slumped. Turkish shares gained 3.2%, helped by a successful treasury debt auction that bolstered its IMF-agreed programme.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Financial markets

Jun 28th 2001
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Jun 27th		Dec 31st 2000	
	Jun 27th	year ago	Jun 27th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	11.7	na	2,320.5	+2.8	+5.8	+5.9
Hong Kong	7.80	7.80	11.0	3.61	13,004.2	+0.7	-13.9	-13.9
India	47.0	44.7	66.4	7.12	3,411.6	+0.2	-14.1	-14.7
Indonesia	11,395	8,685	16,108	16.85	436.1	+0.9	+4.8	-11.1
Malaysia	3.80	3.80	5.37	3.30	590.7	+0.8	-13.1	-13.1
Philippines	52.3	43.1	73.9	10.69	1,415.7	-2.3	-5.3	-9.4
Singapore	1.82	1.74	2.57	2.25	1,703.4	+1.1	-11.6	-15.8
South Korea	1,298	1,116	1,834	5.57	584.8	-1.8	+15.9	+13.0
Taiwan	34.5	30.7	48.7	4.10	4,825.3	-4.1	+1.7	-2.3
Thailand	45.2	39.1	63.9	4.00	323.2	+1.5	+20.1	+15.2
Argentina	1.00	1.00	1.41	10.49	417.2	-0.6	+0.0	-0.1
Brazil	2.33	1.82	3.30	18.30	14,308.0	-1.8	-8.3	-23.3
Chile	625	536	884	3.49**	5,358.7	-0.5	+10.1	+1.0
Colombia	2,307	2,136	3,262	12.65	882.7	+1.0	+23.8	+20.0
Mexico	9.04	9.96	12.8	8.92	6,587.7	+2.1	+16.6	+23.9
Peru	3.52	3.49	5.0	9.57	1,341.4	-0.7	+11.0	+11.3
Venezuela	718	681	1,015	12.91	7,319.3	-0.1	+7.7	+4.9
Egypt	3.87	3.48	5.47	9.06	5,933.3	-2.3	-22.6	-22.2
Israel	4.17	4.09	5.89	4.99	406.8	+1.7	-17.7	-20.2
South Africa	8.04	6.82	11.4	9.88	9,232.3	+0.7	+10.9	+4.4
Turkey	1,254,500	621,510	1,773,361	60.00	11,164.2	+3.2	+18.3	-36.8
Czech Republic	39.4	37.9	55.7	5.10	416.6	-2.1	-12.9	-16.9
Hungary	282	275	399	10.95	6,628.4	-0.6	-15.6	-15.5
Poland	3.95	4.40	5.58	16.68	14,018.9	+0.7	-21.5	-17.8
Russia	29.1	28.1	41.2	25.00	222.0†	+1.2	+57.5	+54.9
EMF (MSCI)‡	1.00	1.00	1.41	na	321.2	+0.6	na	-3.8
EMBI+§	1.00	1.00	1.41	na	216.2	+0.7	na	+7.1

* Inflation adjusted. †In dollar terms. ‡Emerging Markets Free. §J.P. Morgan Chase's Emerging Markets Bond Index Plus.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economy

Jun 28th 2001
From The Economist print edition

	% change on year earlier						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 8.1	Q1	+10.2	May	+ 1.7	May	+21.1	May	+20.5	2000	178.0	Feb
Hong Kong	+ 2.5	Q1	– 0.2	Q4	– 1.5	May	–11.9	Apr	+ 8.8	Q4	114.7	May
India	+ 5.7	Q3	+ 2.7	Apr	+ 2.3	Apr	– 5.7	Apr	– 5.4	Q4	40.1	May
Indonesia	+ 4.0	Q1	+ 4.5	Q4	+10.8	May	+26.1	Apr	+ 5.5	Q3	22.1	Apr
Malaysia	+ 3.2	Q1	– 0.3	Apr	+ 1.6	May	+15.6	Apr	+ 8.4	Q4	26.8	Mar
Philippines	+ 2.5	Q1	– 2.0	Mar	+ 6.5	May	+ 6.7	Apr	+ 9.5	Feb	12.8	Mar
Singapore	+ 4.5	Q1	– 0.8	Apr	+ 1.9	May	+ 4.9	May	+21.8	Q1	77.6	Mar
South Korea	+ 3.7	Q1	+ 5.7	Apr	+ 5.4	May	+14.9	May	+14.0	Apr	93.4	May
Taiwan	+ 1.1	Q1	– 8.2	May	– 0.2	May	+11.4	May	+12.0	Q1	110.6	May
Thailand	+ 1.8	Q1	+ 0.7	Apr	+ 2.8	May	+ 3.1	May	+ 6.9	Apr	31.4	May
Argentina	– 2.1	Q1	– 2.5	May	+ 0.2	May	+ 1.6	Apr	– 9.4	Q4	20.5	Apr
Brazil	+ 4.1	Q1	+ 6.1	Apr	+ 7.7	May	– 1.6	May	–27.3	May	34.7	Apr
Chile	+ 3.3	Q1	+ 3.2	May	+ 3.7	May	+ 1.5	May	– 1.4	Q1	14.3	Apr
Colombia	+ 1.8	Q1	+ 4.0	Apr	+ 7.9	May	+ 1.6	Apr	– 0.1	Q4	9.7	Apr
Mexico	+ 1.9	Q1	– 3.2	Apr	+ 7.0	May	– 9.7	May	–17.8	Q1	40.3	Apr
Peru	– 0.9	Apr	– 6.3	Mar	+ 2.6	May	– 0.4	Apr	– 1.7	Q4	8.2	Mar
Venezuela	+ 3.5	Q1	na		+12.6	May	+17.2	Dec	+12.5	Q1	11.5	Apr
Egypt	+ 6.5	2000†	+ 9.4	2000†	+ 2.4	Mar	–10.4	Q4	– 0.8	Q4	12.9	Feb
Israel	+ 1.8	Q1	+ 0.3	Apr	+ 0.7	May	– 7.5	May	– 0.7	Q3	22.2	May
South Africa	+ 2.7	Q1	+ 7.3	Apr	+ 6.4	May	+ 3.7	Apr	+ 0.1	Q1	6.1	Apr
Turkey	+ 8.3	Q4	–10.5	Apr	+52.4	May	–24.6	Apr	– 8.1	Mar	18.5	Apr
Czech Republic	+ 3.8	Q1	+11.4	Apr	+ 5.0	May	– 3.6	May	– 2.7	Q1	12.6	May
Hungary	+ 4.4	Q1	+ 9.4	Apr	+10.8	May	– 2.3	Apr	– 1.7	Apr	11.3	Apr
Poland	+ 2.3	Q1	– 1.0	May	+ 6.9	May	–10.0	Apr	– 8.8	Apr	26.9	Apr
Russia	+ 4.9	Q1	+ 5.2	Apr	+25.0	May	+60.5	Apr	+45.9	Q1	25.9	Mar
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 5.6	2000†	+ 7.9	Oct	+ 3.9	Apr	– 1.7	May	– 2.5	1999	1.2	Apr
Saudi Arabia	– 0.8	1999	na		– 0.2	Mar	+24.9	1999	+ 0.4	1999	16.9	Mar

*Excluding gold, except Singapore; IMF definition. †Year ending June.

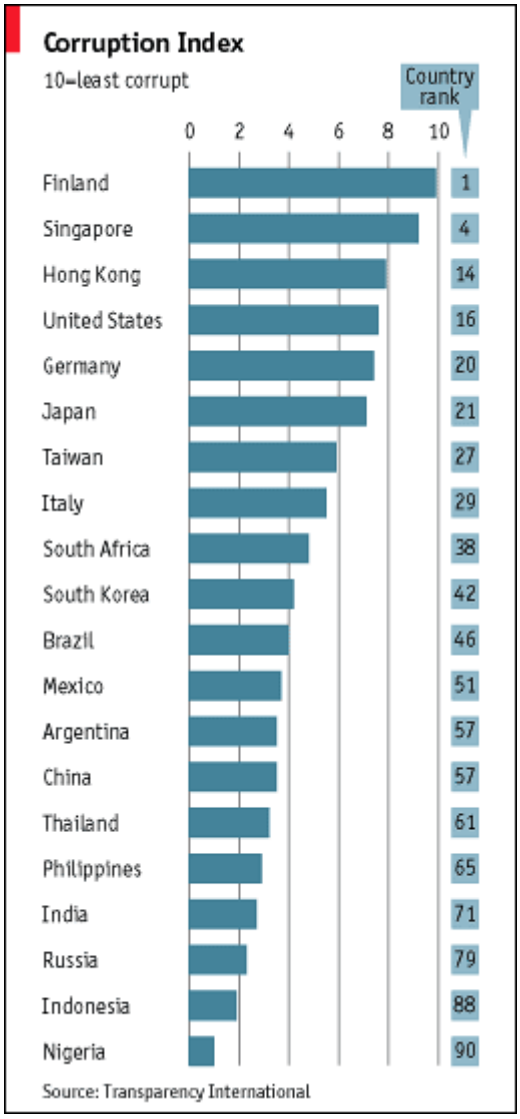
Text refers only to the first 25 countries listed

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Corruption Index

Jun 28th 2001
From The Economist print edition

Nigeria is still one of the most corrupt countries in the world, according to this year's corruption perceptions index published by Transparency International (TI), a Berlin-based organisation that fights corruption worldwide. Launched in 1995, the TI index ranks countries according to how much corruption is perceived to exist among politicians and public officials. The rankings are derived from 14 surveys of businessmen, the general public and country analysts from seven independent institutions.



Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.